

# THE INDONESIAN QUARTERLY

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Current Events

Strategic Analysis of Industrialization

The Pattern and Structure of Industry  
of the ASEAN Region

ASEAN Industrial Cooperation

ASEAN Private Sector on the Move

New Directions of Indonesia's Investment Policies:  
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Southeast Asian Gas Industry

Book Reviews

Statistics



CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES



# THE INDONESIAN QUARTERLY

CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, JAKARTA.

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### The Draft State Budget

*In compliance with the 1945 Constitution, President Soeharto submitted the Draft State Budget for the fiscal year 1983/1984 to the House of Representatives (DPR) on January 6, 1983. This has been the tradition since the New Order. In the midst of the world economic recession, the Indonesian government presented a balanced state budget amounting to Rp 16.56 trillion, of which Rp 7.2 trillion is allocated for routine expenditure and 9.2 trillion for development expenditure. On the revenue side, Rp 13.8 trillion of the entire budget is to be obtained from domestic revenues, while Rp 2.7 trillion is expected to come from abroad in the form of project and program aid.*

*Compared with the previous budget, which stood at Rp 15.6 trillion, the 1983/1984 Draft State Budget reveals an increase of 6.1 percent. In real terms, it is almost certain that the 1983/1984 State Budget will be lower than the previous one.*

*Because of the adverse impact of the world recession on the Indonesian economy, especially this year, the president has introduced a tight state budget. Indonesia's earnings from oil exports, which constitutes 70 percent of her export, has decreased because of the decline both in price and in volume in accord with OPEC's decision. In its turn this has reduced the availability of funds for development, increases subsidies for fuel oil and raises the cost of production. In order to lessen the subsidies, the government decided to raise the domestic fuel oil prices.*

*In spite of the limited funds available for the budget, the government is determined to sustain the momentum of development. To this end the only way is to use those limited funds in the most efficient and the best possible manner and by reducing and avoiding as far as possible unnecessary expenditures.*

*Since the routine budget is very limited, the government and its entire apparatus have to use it well and take steps towards simplification and austerity based on priorities. Salaries of civil servants and members of the Armed Forces, for example, will not be raised. Furthermore, the government will no longer provide service cars for civil servants except for those who are truly in need of them.*

*As to the efficient use of the development budget, the allocation will be guided by a sharpening of development priorities. No new buildings for government departments or other agencies as well as government housing will be built. The number of seminars or workshops as well as visits abroad or to the regions and ceremonies to inaugurate projects, will be reduced drastically. Education and youth, agriculture and irrigation, communication and tourism still get the highest priority. Each will be provided a budget of more than Rp 1.3 trillion. Next comes mining and energy with an allotment of Rp 1.1 trillion. These budget increase is to reflect the continuation of the development in face of the limited state budget available and the world economic recession.*

*The rise of domestic fuel prices has become unavoidable in order to reduce the oil subsidies and their high opportunity cost in terms of development. If the subsidies are to continue they will reach a figure of Rp 2.1 trillion which is 12.7 percent of the entire budget or 26.6 percent of the development budget. This is too heavy a burden for the state.*

*The fuel price increase tends to affect prices of other commodities and services. Accordingly, the government has also fixed and controlled the tariffs of different goods and services so as to spare the consumers from wide fluctuations in prices.*

*The routine and development budgets as well as foreign exchange reserves should be used for items which are really indispensable. Hence the government is exercising tight control over the import of goods which already can be produced domestically. Some measures have been taken to limit, postpone or control the execution of imports of non-essential commodities such as foodstuff, beverages, alcoholic drinks, fruit, garlic, tapioca flour and the like. These measures will also encourage Indonesian entrepreneurs and farmers to produce similar commodities and market them domestically.*

*Altogether, the 1983/1984 Draft State Budget does not reveal a gloomy prospect. Indonesia is determined to continue her development program. Through the first, second and third Five Year Development Plan the country has been able to achieve remarkable economic growth. The agricultural sector, for example, has obtained self-sufficiency in rice production of over 23 million tons. In the industrial sector, downstream industries have been developed since the first Five Year Development Plan. Since the outset of the third Five Year Development Plan to date, basic industries, usually known as upstream or key basic industries, have been built. These industries will become the basic for industrial development in the coming fourth Five Year Development Plan.*

*Finally, it can be added that by encouraging the private sector to increase its participation in the development and above all, by exercising appropriate supervision on the use of the state budget, Indonesia will certainly be able to manage her development efforts in this difficult year to come.*



## Current Events

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### The Presidential Visits

President Soeharto and Mrs. Tien Soeharto accompanied by some members of the Cabinet, visited Spain, the United States, South Korea and Japan at the invitation of the four Heads of States of the respective countries from October 7 to 22, 1982. President Soeharto's visits were official, except the one to Japan. The visits were aimed at further strengthening relation and cooperation between Indonesia and the four countries. This occasion was an opportunity for the President to have talks with the Head of States of the respective countries on various problems.

The State visit to Spain was a return visit to that of King Juan Carlos I and Queen Sophia to Indonesia in October 1980. In Spain, the President had some talks with Prime Minister Calvo Sotelo. Meanwhile, the Ministers had some talks with their counterparts on issues of common interests. President Soeharto also visited Casa aircraft manufacturing plant at Getafe, Madrid, with which Indonesia's PT Nurtanio has joint ventures in producing C-212 Aviocar and CN-235. The results of this visit was a cooperation agreement on science and technology signed by the Foreign Ministers, Mr. Mochtar Kusumaatmadja and Mr. Jose Pedro Llorca. The agreement stated that the Government of Spain and Indonesia agreed to step up cooperation in the field of science and technology which are mutually beneficial.

The two governments also agreed to take steps to expand Indonesian exports to Spain. The two sides have agreed to identify Indonesian goods marketable in Spain. A joint press communique issued before President Soeharto left Spain stated that the Heads of the two countries noted with satisfaction the progress made in bilateral relation and agreed to promote science, economic, and technological cooperation.

From Spain, the President and party continued their visit to the United States from October 10 to 15, 1982. The purpose of this visit was to reemphasize the good relationship between the two countries. On October 12, President Soeharto and President Reagan had official talks in the White House concerning major regional and international issues as well as cooperation between Indonesia and the United States.

Other important matters discussed by the two presidents were on development assistance to developing countries. President Soeharto has urged President Reagan to appropriate sufficient amounts of resources to the IDA, to be used by countries such as Bangladesh, Tanzania, Burma and others. However, President Soeharto did not ask for any financial assistance for his country in his meeting with the American President.

In the field of trade, Indonesia suggested that the United States make efforts to bring about a balanced trade between the two countries. In 1981 Indonesia's export to the United States was US\$ 4.1 billion, of which US\$ 3.5 billion comprised of oil exports. The remainder was comprised of non-oil export. On the other hand the United States non-oil export to Indonesia totalled US\$ 1.8 billion.

Commenting on President Soeharto's visit to the United States, Jusuf Wanandi, member of the Board of Directors of CSIS in Jakarta and a keen observer of American affairs, said that the visit was very important because the President could have a direct exchange of views with his American counterpart on issues which Indonesia felt strongly about and which have not been seriously discussed by the Reagan Administration, such as on the Law of the Sea; the release of tin stockpile by the United States; the role of international economic cooperation within the framework of the NIEO.

Furthermore, this meeting enabled the Reagan Administration to hear for themselves how a Third World and developing nation such as Indonesia thinks about those problems, so that they get some feedback and at least consider the issues seriously. It is also necessary to bring forward the issues to further cooperation between the North and the South; between developed and developing nations. Moreover, those issues have most probably not been discussed by other Third World leaders visiting Washington DC.

Commenting on the regional issues discussed by the two presidents, Jusuf Wanandi said that two of the issues are outstanding, namely the future roles of Japan and China.

Since many questions were launched on the role of Japan not only in the economic field but also in defence, the issue had become more confused. Ac-



cordingly, Indonesia put forward her perception on Japan's role in the future. The country would like to see Japan play a role in the economic field which constitutes an important part in the security of East Asia because security is not only a military matter but also involves economic and political affairs. Indonesia understands the need for Japan to share the burden of defence with the United States and that Japan's role be maintained in the economic field and that the increase of her self-defence capability be confined to her own homeland and the surrounding waters.

The second regional problem concerns the role of China and the sensitivities of Indonesia and other ASEAN member countries, which the United States should take into consideration in formulating her policies toward China, especially with regard to the sales of arms.

In his comments on the Kampuchea conflict which was also taken up in the discussion, Jusuf Wanandi said that Indonesia expected the United States to play a role to bring the conflict gradually to a diplomatic compromise, because a prolonged conflict will not be conducive to the stability of Southeast Asia and will very likely invite more interventions by the great powers.

South Korea is the third country of the President's visits. The main purpose of this visit was to strengthen mutual relationship and understanding, especially in the political and economic fields. This was a return visit to President Chun Doo-hwan's visit in June 1981. President Soeharto discussed with President Chun Doo-hwan the international situation and issues of common interest. Meanwhile, the members of his cabinet had some talks with their South Korean counterparts.

Indonesia agreed to sell two million tons of LNG per year to South Korea and preparation will soon be made to liquify the natural gas at Arun, Aceh, and to export it to South Korea. Indonesia will also export 15,000 barrels of oil per day to South Korea at the OPEC price. And to achieve a balanced trade between the two countries, South Korea has agreed to make efforts to boost its imports of various non-oil commodities from Indonesia. The agreement is part of the talks held by the two countries.

The joint communique issued before President Soeharto's departure for Tokyo stated that President Chun Doo-hwan explained his previously announced proposal for a summit conference of Pacific nations, and President Soeharto said that such a good idea deserved his further considerations. The two presidents also agreed that mutually beneficial cooperation between South Korea and the member nations of the ASEAN "would be important for the peace and prosperity in the Pacific region." They also agreed to step up

economic cooperation, including joint ventures between private business enterprises of both countries and the exchange of scientific and technological expertise.

On the Korean question, President Soeharto, sharing Mr. Chun's view, expressed support for an early entry of both South and North Korea into the United Nations. President Soeharto reiterated his government's previous position that the territorial unification of Korea be achieved by peaceful means.

Japan was the last country of the President's visits. During the visit, which was an unofficial one, President Soeharto had discussions with Prime Minister Zenko Suzuki (who had already announced his resignation) on issues of common interest bilaterally, as well as on regional and international problems. The Indonesian ministers held a meeting separately with their counterparts. In this meeting the Indonesian party explained the so-called counter-purchase policy. The same issue was also explained by the President in meetings with the four LDP leaders (Former Prime Minister Fukuda, Minister of Economic Planning, Toshio Komoto, Minister of International Trade and Industry, Shintaro Abe, and Minister of Administrative Reform, Yasuhiro Nakasone -- now the prime minister). The meeting with the LDP leaders were not included in the original program of the President's visit to Japan but were held on their request.

In the discussions, Japan requested that the counter-purchase policy be reviewed. Indonesia expected Japan to understanding this policy, which was intended to increase Indonesian exports. Mr. Shintaro Abe told newsmen after his talks with President Soeharto that Indonesia's export policy, which may create problems for Japan, can still be solved through consultations between the two countries.

In connection with the Japan's defence build up, urged by the United States in the framework of greater Japanese participation in maintaining security of Asia and the Pacific, the Japanese Prime Minister, Mr. Suzuki assured President Soeharto, that Japan's defence build-up is only for its own self-defence.

In summing up his visit the President said to the press that all the four governments had given positive responses to his ideas and proposals, which constitute the basis for a better cooperation in the future.



## **A Perspective of Indonesia's Economy in 1983**

In 1983 Indonesia's economic growth will definitely not reach the growth rate of 9.6 percent attained in year 1981. Such high rate of economic growth in 1981 could be attained due to the availability of development funds from either the private sector or the government to stimulate economic activities of various sectors.

In this year of 1983, Indonesia will be severely affected by the continuing world economic recession which has in fact been already felt since early 1981.

Since the end of 1981 Indonesian exports have declined. One of the most important commodities is oil. Being an OPEC member and pursuant to OPEC accord, Indonesia reduced its oil production in 1982 from approximately 1.6 million barrels a day to 1.3 million barrels a day. The decline in the production was accompanied by the decline in the export of oil. Oil constitutes an important commodity in Indonesia's economic activities and a change in oil production entails a great impact. Aside from oil, Indonesia also relies on the exports of raw materials such as rubber, wood, tin and coffee. However, the slump in the world economy has also slackened the demand for those export commodities. Furthermore, the prices of some commodities even decline.

The condition in 1983 will most likely not change significantly even though the government has issued a set of regulations to stimulate exports. Whereas on the other hand, most of Indonesia's imports consist mainly of capital goods of which the volume could not easily be reduced because such imports are essential to maintain development. Such a situation will cause severe pressures on Indonesia's trade balance and has become increasingly noticeable since the first week of January 1983 when the government increased the domestic fuel oil price. This action will beyond doubt also increase the basic prices of commodities and might in turn result into lessening the competitiveness of Indonesian products in international market.

The government has submitted the Draft State Budget to DPR (Parliament) for Fiscal Year 1983/1984 which will begin on April 1, 1983. Viewed from its level and composition it can be noted that the government's capability to activate the economy has weakened. This means that without stimulation on the part of the private sector or if the private does not substitute for the decreasing role of the government, the economic problem to be faced in 1983 will become a serious one. The decision to increase the price of fuel oil is basically aimed at decreasing subsidy that must be provided by the government to consumers.



However, past experiences have shown that there is a positive correlation between the price of oil and the general price level. For the year 1983 exact figure of the rate of inflation caused by the increase of oil price is rather difficult to determine especially because in the last three years composition of domestic oil consumption has fluctuated widely.

It is expected that the government will apply a tight credit policy. Such credit policy is expected to be directed selectively to productive sectors. It can be ascertained that in 1983 the government will adjust the amount of money in circulation with the economic activities in order to curb inflation. Nonetheless, based on an in depth observation it may be said that the growth rate of Indonesia's economy will not reach the figure attained 1981. Even to reach the figure of 1982 seems to be extremely difficult.

In 1982 the rate of inflation stood at 9.7 percent. In 1983 an inflation rate of one digit can still be attained if the government expenditures be effectively used and both the private sector and the government sector take efficient steps in applying it. Indeed, taking these measures is difficult, because for that purpose appropriate changes are required, such as those related to the government expenditure composition.

The year 1983 will be a difficult period for Indonesia's economy although it can be ascertained that its economic growth rate will be higher than that of industrial countries.

*Pande Radja SILALAH*

## **The East Timor Issue at the United Nations**

The East Timor issue was debated for the first time in the General Assembly of the United Nations in 1975 on the allegation that Indonesia had invaded the territory. The United Nations regarded Indonesia's action as a threat to international peace and security. The East Timor issue has been on the agenda of the United Nation General Assembly sessions since then. Indonesia's delegation to the United Nations accused the United Nations of in-

terfering in the internal affairs of a sovereign state by taking up the East Timor issue. However, Indonesia thus far has failed to have the item removed from the agenda once for all. Therefore, every year she has to convince the countries opposing Indonesia in this matter at the United Nations that the people of East Timor have freely chosen Indonesia as their own homeland. Portugal and its allies, mostly her former colonies in Africa such as Angola, Cape Verde, Guinea Bissau, Mozambique and Soa Tome and Principe, have succeeded in keeping the issue alive, although in 1982 their campaign failed to rally support, because it was only a repetition of the same old issue.

However, Portugal's move at the United Nations was opposed by Indonesia and the other members of ASEAN, Japan, some countries of the Middle East and the United States. The current United States position on the East Timor issue is to accept its incorporation into Indonesia without recognizing that a valid act of self-determination took place. The United States position was forwarded by John Holdridge, chief of the State Department's Asian Bureau, before Congress in Mid-September 1982.

At the general debate on the East Timor issue in the General Assembly of the United Nations in 1982 Indonesia succeeded in foiling Portugal's effort to isolate her. At the voting on the resolution supporting the Fretelin, the Revolutionary Front for Independent Timor, the Indonesian delegation succeeded in reducing the number of votes supporting the resolution. The voting difference was four in 1982 against twelve in 1981.

The 1982 vote has resuled in the smallest difference since the East Timor issued was first debated seven years ago: 50 countries voted in favour of the resolution and 46 against, 50 abstained, and 1 were absent. The Indonesian Foreign Minister Mochtar Kusumaatmadja described the shift in Pakistan's position, from abstention in 1981 to against in 1982, as a major success. Pakistan's new position was forwarded during Zia Ul Haq's visit to Indonesia in early November 1982. Meanwhile, the abstainers include the Western Europeans, such as Britain, France, Italy, Denmark, West Germany and Norway. These countries sympathize with Portugal, a fellow member of the NATO, but refrained from antagonizing Indonesia with regard to her stance on the East Timor issue.

Consequently, the voting record on the East Timor issue since 1975 is as follows:

- 1975: 72 in favour, 10 against, 43 abstained and 18 absent;
- 1976: 65 in favour, 20 against, 53 abstained and 7 absent;
- 1977: 67 in favour, 26 against, 48 abstained and 7 absent;



1978: 59 in favour, 31 against, 45 abstained and 14 absent;  
1979: 62 in favour, 31 against, 45 abstained and 13 absent;  
1980: 58 in favour, 35 against, 46 abstained and 15 absent;  
1981: 54 in favour, 42 against, 46 abstained and 15 absent;  
1982: 50 in favour, 46 against, 50 abstained and 11 absent;

This voting record reflects that more and more countries refuse to support the Portuguese-sponsored resolution against Indonesia. Thus Portugal failed to isolate Indonesia at the United Nations.

According to Mochtar Kusumaatmadja the tone of the 1982 resolution softened in that it merely calls on the United Nations to settle the East Timor issue on the allegation in 1981 the East Timorese people. He also attributed the favourable development to the greater understanding of many countries and international organizations such as UNICEF and the International Committee for Red Cross (ICRC). These international organizations witnessed that the Indonesia government seriously worked for the welfare of East Timorese people.

In his statement before the 1982 General Assembly plenary session, the Indonesian Ambassador to the United Nations, Ali Alatas, on behalf of the Indonesian government rejected the resolution. He said that it is about time that the General Assembly put an end to the futile debate on East Timor which should have been left out from the agenda of the United Nations General Assembly session. He further said that the continuing decrease in support for the resolution and the large number of countries voting against the resolution or abstaining is a clear indication that most of the members of the United Nations are tired of the discussions on the East Timor issue. The people of East Timor have already exercised their right of self-determination by winning independence through integration with Indonesia in May 1976 and this was an irreversible fact. No United Nations' resolution, however worded, could alter the East Timor status.

The 1982 voting result was regarded as a victory for the Indonesian delegation because of the decreasing number of supporters of Portugal and its allies, although Indonesia had not yet succeeded in beating the resolution down. However, by and large the fact that the number of Portugal's supporters has decreased has helped Indonesia's position in the United Nations. The result was also an indication that the number of countries who understood and supported Indonesia has increased in the United Nations. And out of 157 United Nations member countries there are only 50 or less than one third of the total number of member countries who still wanted to keep the issue alive. They should realize that there is no more politics involved in East Timor and that it



has become part of Indonesia since May 1976. This fact will never change. And with the appointment of the new East Timor Governor Mario Viegas Carrascalao in September 18, 1982, who formerly actively fought for its integration in the United Nations, great efforts have to be made to quickly develop East Timor, so that it will match the standard of other Indonesian provinces.

Meanwhile, former Australian Prime Minister Gough Whitlam urged the United Nations to drop the issue from its agenda and encourage East Timor's development as a province of Indonesia. Speaking before the General Assembly's Trusteeship Committee, he also said that national and provincial election last May put an entirely fresh complexion of the question on self-determination for the people of the territory. Whitlam declared his support for the present Australian government's view that if Australia and other nations wanted to serve the best interests of the East Timorese they should encourage Indonesia in its efforts to improve living conditions.

*Bantarto BANDORO*

# A Strategic Analysis of Industrialization

Ali MOERTOPO

## INTRODUCTION

The above title, covers two important aspects that at once limits the area of application of the matters under discussion. Firstly, with the above title the focus of the discussion is upon the question of industrialization. Nevertheless, not all questions relating to the industrialization effort need to be discussed since the question must be examined from within the general theme of the seminar: Industrialization in the Framework of National Development. What needs to be examined are only the questions of industrialization relevant to national development.

Because in this context the question of industrialization must be related to the national interest and the aim of national development, then the focus of the discussion will be more political in nature. So, even though theories concerning industrialization have flourished and whereas the technical aspects of the industrialization process are quite complex in nature, in the following discussion these theories and technical aspects are subordinated to the political desires and political aims that have been decided upon in common and that are outlined in the Broad Outlines of State Policy (GBHN). However elegant the existing theories may be, we need not analyze them if the theories are unsuitable to the political desires and directions that we have already decided upon in common. Likewise, no matter how complex are the technical aspects of the industrialization process suitable for Indonesia's political desires and aims, the operational problems are not to be debated but are to be overcome by specialists with definite plans and comprehensiveness. Only when it is clear-

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This article is translated from the Indonesian text of the paper presented at the Seminar on Industry, Jakarta 10-12 December, 1981, sponsored by CSIS. Ali Moertopo is currently the Minister of Information and the Honorary Chairman of the CSIS.

ly proven that the operational problems cannot be solved, then can the necessary adjustments be considered.

If the first aspect points to the need to relate industrialization to political desires and aims, the second aspect says that the examination of industrialization should be restricted only to matters of a strategic nature: in other words, matters important or essential in their relationship to questions of strategy. From the above discussion it is apparent that the observations concerning the strategy of industrialization cannot be separated from considerations of the national development strategy.

Industrialization involves creating and developing industry: when we discuss purely industrialization questions then the area includes all forms of the attempt to establish and develop industry. Nevertheless, if we discuss the question of industrialization alone, then to pose the following questions -- which are so important with regard to national goals and interests -- would not perhaps be very relevant: does industrialization strengthen the economic, social and political structure or does it create vulnerabilities? Does industrialization proceed in an integrated or a segmented fashion, is it managed by the government or is it left to itself in accordance with market forces; does it heavily burden the bulk of the people or is it genuinely borne by all for the sake of the national interest; do the industrial units support and reinforce each other or do they develop individually -- and perhaps even cripple each other.

The danger in studying industrialization in a segmented manner lies in the notion that what is good for one unit of industry must be good for the industrial sector, and what is good for the industrial sector must be good for the national interest. The central question then becomes how to guarantee industrial growth and development and other problems are considered secondary, vague or are not given any attention at all. Whereas what is sought is not industrial growth and development but the construction of industry that will help to achieve national ideals.

It is clear that a strategic analysis of industrialization, compared to a strategic analysis of industrialization in the framework of national development, have perspectives that can differ in principle. Although in the following study the word "industrialization" will continue to be used, in keeping with the theme of the seminar, it is intended that this be an abbreviation for industrialization within the framework of national development.

In carrying out a study of strategy, which basically looks far into the future, several matters can be noted. Firstly, a strategic analysis emphasizes



strategic aspects or takes as its starting-point certain aspects of a strategy. Secondly, following a particular strategy needs a mechanism to achieve it, but both the strategy and the mechanism are very closely interconnected: on the one hand, the current mechanism will influence the choice of the suitable strategy and on the other hand by following a certain strategy the mechanism in operation can also change. Thirdly, both the strategy chosen and the mechanism used are very much influenced by the predetermined initial conditions.

## INITIAL CONDITIONS

The time period for a strategic study is long-term. What is meant to be achieved by a particular strategy and what can in fact be achieved in the short-term can differ, but this need not give rise to problems of principle as long as the guidelines of the strategy are firmly adhered to. To carry out a strategic study which is conceptual but nevertheless relevant, a comprehensive understanding of the preexisting conditions is necessary. A responsible and objective evaluation of the initial conditions, which is the main foundation for a strategic study, must be based upon an analysis of the concrete facts and not upon a changeable philosophy, upon valid data and not upon rigid dogma.

With the linking of industrialization to national development it would be unsatisfactory if this analysis was meant only to give a comprehensive description of the industrial sector. In the GBHN (Broad Outlines of State Policy) it is stressed that the focus of long-term development is upon economic development which means that the large part of development activities are directed towards economic development whereas developments in other areas are supportive and complement, of economic development. Therefore, the analysis needed to describe these preconditions in relation to the study of industrialization must include not only the industrial sector in particular, but also its relationship to the economy in general.

The choice of the time considered to be the initial stage must also be done carefully. It would seem not so relevant to decide that the conditions during the period of the Old Order be taken as the initial stage when we remember the disturbances that took place then. Similarly, the period towards the end of Repelita I (First Five-Year Development Plan) under the New Order is inappropriate to be made into the initial phase. During Repelita I attention was devoted more towards strengthening the foundations for later development by completing the stabilization and rehabilitation of the economy so that the industrial sector in particular, and the economy in general, were still not established.

According to the conception of the GBHN, the long-term development of the economy, such that it achieves national goals, will take 5 or 6 Repelita periods. During the periods of Repelita One to Repelita Four the focus is on the agricultural sector, but by increasing industrialization after the Fifth or Sixth Repelita there will have been created an economic structure with industrial strength at its heart supported by a strong agricultural sector. From Repelita One to Repelita Three the stages of industrial development are emphasized as supporting the agricultural sector, reprocessing raw materials into basic goods and reprocessing basic goods into finished products. As of Repelita Four there will be promoted an industry that is able to produce industrial machinery itself, for both light and heavy industry, which will be further expanded in the following Repelita.

The industrialization plan as conceptualized by the GBHN points to a clear shift, while still maintaining the principle of continuity between Repelita. If in Repelita One and Repelita Two industry was aimed at supporting the agricultural sector and reprocessing raw materials into basic goods, since Repelita Three industry has been directed towards producing finished goods and industrial machinery itself. In carrying out an examination of the industrialization strategy which is related to the pattern of industrialization according to the GBHN conception, it should be appropriate to designate as the initial phase the situation resulting from the developments of the First and Second Repelita. In addition, the decade of two Repelita is a sufficiently long period to lay a useful analytical basis for looking to the future.

It is true that at present there does not exist an overall analysis of the development achievements of Repelita One and Repelita Two, either drawn up by specialists, colleges and research institutes or by government departments and institutes. Efforts in this direction have been made, but are still largely focussed upon the industrial sector -- although these observations have been linked to the total Indonesian economy in general with the publication of the single work: *The Monograph of the Pattern and Structure of Indonesian Industry Since the End of Pelita II*, by the Industrial Development Research Agency in the Department of Industry. Although its applicability is limited, and its data base is apparently imperfect, in broad outlines the monograph puts forward several strategic problems.

## STRATEGIC PROBLEMS FOR INDUSTRIALIZATION

The growth of the industrial sector during the decade of the first two Repelita reached a rapid pace: during this period the average yearly rate of growth for Indonesia (between 12-13 percent) was greater than the average



figure for the developing countries (less than 9 percent). For several industrial commodities the average figure of yearly growth even reached over twenty percent. Many industries which previously did not exist were established during Repelita One and Repelita Two within the framework of supporting agricultural and reprocessing raw materials into basic goods. According to the aims of the GBHN, the long-term development of the industrial sector will be carried out in stages and the contribution of the industrial sector is very significant in achieving the goals of each stage of development: namely, increasing living standards and people's welfare while laying a firm basis for the following development stage.

Although many achievements have been made and the industrial sector's rate of growth has proceeded steadily, an examination of the pattern and structure of industry shows that there are several factors that need to be given attention. Firstly, the growth of the decade of Repelita One and Repelita Two points to a structural paradox: the industrial sector's rapid growth rate (a yearly average of 12.6 percent) was far greater than the growth of the Gross Domestic Product (7.7 percent) but did not in fact involve significant structural economic changes.

Calculated according to current prices the contribution of the industrial sector to the Gross Domestic Product increased only marginally from 9.2 percent in 1969 to 9.9 percent in 1978 (the figure do not differ greatly for the industrial sector's contribution in the 1950s). If this growth pattern continues, then after Repelita Six the most that can be expected is that the industrial sector's share of the Gross Domestic Product will reach 15 percent. If such are the prospects, then it cannot be said that the call of the GBHN for a balanced economic structure -- with industrial power at its centre -- can be fulfilled.

There are certainly various rationalizations that can be put forward to explain why this structural paradox arose, including: Indonesia is a large country, hence the scale of the economy is also large; that other sectors of the economy also grew rapidly; that the exchange value of the primary commodities exported by Indonesia leapt in the international market. Nonetheless, the GBHN does not indicate that the national long-term development goal of an economic structure centred upon industrial strength need not be achieved whenever such factors operate.

The fact that Indonesia is a large country, that sectors other than the industrial sector are capable of rapid growth and that Indonesia's natural resources fetch a high price on the international market is precisely what provides the opportunity and a firm foundation for making Indonesia a strong industrial nation of some integrity. Therefore, there needs to exist a strategy to



prevent the appearance of structural paradoxes in the future. This strategy must, and will, succeed because the appearance of a structural paradox is not caused by structural weaknesses of a fundamental nature but by the intrinsic strengths of the Indonesian economy.

The second factor is an import-substitution paradox. The substitution of industrial product imports has shown some success but the overall dependence on industrial imports has not declined. In general, the ratio of imports to total requirements for industrial products during Repelita One and Repelita Two has apparently declined significantly especially for finished products which can even, in several cases, be entirely produced domestically. On the other hand the figures for intermediate products tend to be high and increasing, especially for basic metal and basic chemical industry products. So when examined with respect to industrial end-products the import-substitution scheme seems to have been generally quite successful. Yet for industrial products overall, the ratio of imports to total needs has not changed: almost one-third of total requirements for industrial products still has to be imported. The ratio of imports to domestic production for the industrial sector is also still the same: almost one-half.

This paradox indicates that import-substitution has as yet been unable to reduce the level of dependency upon imports, but has just been able to change the dependency pattern: from finished goods it has shifted to components and parts. Industrial growth in the past occurred particularly through the increasing import of industrial goods but activities aimed at full manufacturing were still very few; industrial growth was made possible, and facilitated, by the increase in foreign exchange revenue from the export of primary commodities. If the import-substitution paradox is allowed to continue then industrial growth will require increases in foreign exchange earnings yet the continued production of existing industries will be greatly determined by the position of Indonesia's balance of payments. While 90 percent of export earnings continue to derive from primary commodities and while the export of industrial commodities does not dramatically increase, Indonesia will be forced to continue to raise the level of its primary commodity exports to maintain the existence and ensure the growth of its industrial sector. This will cause distortions in the determination of national priorities. Such a pattern cannot make the industrial sector into the backbone of the economy; instead, it is possible that the industrial sector will at one time become no more than a parasite upon the national economy.

Thirdly, there is also a visible paradox in relationship to the use of import goods. While the import of consumption goods is only a small part and the largest share of imports is in the form of capital goods, basic materials and industrial inputs, an analysis using input-output tables shows that the largest

share of imports are in the end needed to satisfy consumption needs. This indicates that imports used to satisfy investment requirements and to allow the continued export of industrial products are no less important than those needed for consumption.

It may be noted that if on the one hand the share of primary commodities is over 90 percent of export earnings, on the other hand about 85-90 percent of import costs are for industrial products. Related to the paradox in the use of import goods, it can be seen that to satisfy consumption requirements too the import of industrial products in large numbers is still required. Thus, Indonesia is not only dependent upon the import of industrial products for capital formation, but also for consumption, whereas the industrial sector's capacity to reprocess imported commodities into industrial goods for export is still very low. In other words, the industrial sector is still incapable of changing the pattern of dependency formed by the colonial economy: exporting primary commodities to make possible the import of industrial products for consumption and investment.

Fourthly, an analysis of the industrial structure indicates a structural weakness and vulnerability: the branch industries that have developed are mostly at the earliest stages (for instance the agricultural-reprocessing industry, including rice-milling and tobacco-drying) or the final stage of the production process (the motor-assembling industry, for example). As an example there can be mentioned that for the non-iron basic metal industry, almost 96 percent of industrial inputs originate in the mining sector: if the activities of an industry have already passed far beyond the initial phase, then the contributing of inputs originating in the industrial sector will be great. On the other hand, the inputs for the paper industry originating in the agricultural sector have reached just 2 percent, and for the basic metal industry the inputs from the mining sector are only 1 percent: if its activities were not restricted only to the final stage of the production process, then inputs from the primary production sector would be greater.

These structural gaps between the two extremes of the production process are located exactly in the vital sector: it is these gaps that determine the strength and integrity of an industrial structure as well as its capacity to produce a high value-added, which is the industrial sector's dynamic source since its growth can produce multiplier effects. The existence of these structural gaps causes the weakness in the links between the industrial sector and other production sectors in the Indonesian economy -- and within the industrial sector itself.

The existence of this structural weakness, on the one hand means that Indonesia's natural wealth cannot be fully exploited and on the other hand the



industrial sector itself cannot stand upon the strength of Indonesia's economic structure. If almost all exports consist of primary commodities the share of domestic agricultural produce reprocessed by the industrial sector is only about one-quarter, and for the mining sector less than one-tenth. Because primary commodities are exported in the crude form, and few are reprocessed by the industrial sector, then the increase in their exchange value on the international market produces no noticeable effect upon the multiplication of value-added for the industrial sector.

An examination of the pattern and structure of industry does not only show that at the end of Repelita Two the industrial sector was not very capable of reprocessing Indonesia's natural riches and energy sources; it was apparent that the industrial sector was also unable to produce the products needed by the industrial sector itself. Whether examined from domestic production output, value-added or labour force employment it is clear that the structural base for industry at the end of Repelita Two was basically still narrow. The bulk was located more in light industry, which in turn was focussed upon conventional branch industries that still used relatively simple production techniques (especially the food, drink and tobacco industries); on the other hand, for heavy industry the preponderance was upon downstream industries with relatively short production stages.

The rapid growth that has taken place in the industrial sector has led to an expansion of industrial branches at the beginning of a narrow structural basis, and little in the way of an expansion of the structural basis itself. Therefore, there has been little obvious connections formed between industries: in Indonesia industries are more linked with overseas industries than with domestic industries. Indonesia's industrial structure shows not just weakness but also vulnerability: difficulties for Indonesia's balance of payments directly endanger the existence of the industrial sector, whereas the strength of the balance of payments is determined not by the industrial sector but by the primary production sector.

Basically the source of the three abovementioned paradoxes is to be found in the structural weakness and vulnerability of the industrial sector. Structural paradoxes arise because the direction of industrial development is not directly related to changing fundamentally Indonesia's international trading structure: to change the composition of exports so that the emphasis is more upon industrial commodities and to shift the composition of imports so as to steadily lessen the importance of industrial products.

Because the production stages and transformations undergone in the industrial sector, before Indonesia's natural resources are exported, can be said



to be practically insignificant, progress made in the primary production sector is largely unaccompanied by the development of the industrial branches connected to it. The lack of connections between the primary production sector and the industrial sector does not simply imply that progress in the primary production sector involves little direct results for the growth of the industrial sector: more than that, the benefits of the increase in the economic value of Indonesia's primary produce goes no further than the primary production sector, and does not greatly effect an increase of the industrial sector's value-added.

Similarly, the import-substitution paradox arises because of the structural gaps in the industrial sector: the growth of downstream branch industries has been unsupported by the capacity of the industrial sector to produce the needed inputs. And the paradox in the use of import goods is also caused by the weakness of the industrial sector: its apparent inability to produce capital goods and industrial goods for export.

With the persistence of these structural paradoxes Indonesia has been too generous in allowing other countries to enjoy the multiplicity of value-added derived from the reprocessing of Indonesia's increasingly valuable natural resources and energy sources. By permitting the import paradoxes to continue, we have allowed ourselves to be more and more in the grip of the overseas suppliers: by providing the industrial products that support the survival of downstream industries in particular, as well as supplying the inputs and capital goods for production activities of the economy in general. Industrial growth unaccompanied by structural changes directed towards reducing this structural weakness and vulnerability can in the long run weaken, rather than strengthen, Indonesia's economic structure. At the very least, this pattern of growth does not alter the dependency pattern of the colonial economy. Thus, the crucial problem for industrialization can be reduced to the single fundamental question: how can the pattern and structure of industry be changed so as subsequent industrial development is in accordance with national goals and interests?

It should be emphasized that the visibility of the industrial structure's weakness and vulnerability in general, and of import and structural paradoxes in particular, does not imply that the strategy, policy and measures pursued in the past were necessarily incorrect. The correct strategy was such as that as has been laid out in the GBHN, and the measures taken during Repelita One and Repelita Two were in accordance with the guidelines of the strategy set out in the GBHN. On the other hand, policies and measures had to be chosen pragmatically, which were relevant to the existing situation. In the context of Indonesia's economic condition in particular and the international situation in

general, during the decade of Repelita One and Repelita Two the industrial development policy pursued was suitable and correct.

The visibility of structural weakness and vulnerability, as well as the emergence of these paradoxes, does not reflect the failure of the New Order but is precisely a manifestation of its development successes. A structural paradox would not arise if Indonesia's economy was not developing; import paradoxes would not appear -- and the structural weakness and fragility of the industrial sector would not be visible -- if the industrial sector was not growing and developing.

The existence of structural weaknesses and vulnerability indicates that, in the context of Indonesia as a large country, there are still very many branch industries that can be constructed to fill the structural gaps in the industrial sector. A structural paradox shows that other sectors of the economy have grown rapidly and that this has been accompanied by an increase of their purchasing power. Thus, the financial strength of the Indonesian economy is becoming firmer and the domestic market is also growing larger.

Similarly, the import-substitution paradox shows that although the scope for industrial growth through import-substitution has grown increasingly narrow as it is faced with market saturation, the downstream industries that have already grown lay a strong base for the development of more upstream industries to which they can be connected. The paradox in the use of import goods shows that the scope for the development of the machinery industry and related products is still wide open.

All in all, from the foregoing discussion it is clear that, when looked at in a long-term perspective and from the strategy and direction of long-term development determined by the GBHN (the Broad Outlines of State Policy), the crucial question is how to guarantee that industrial growth is also accompanied by structural industrial change so as to reduce, in stages, its structural weakness and vulnerability. The GBHN has determined economic structural change as its long-term economic aim so that a balance economic structure can be achieved. The experience of Repelita One and Repelita Two shows that rapid growth of the industrial sector did not ensure the achievement of a balanced economic structure. More detailed analysis also shows that to achieve a balanced economic structure, rapid growth in the industrial sector must be accompanied by change of its structure while the attempt to change the industrial structure makes possible the acceleration of industrial development. Although not stated explicitly, implicit in the GBHN is the implementation of changes to the industrial structure throughout the series of Repelita.



With the growing resilience of Indonesia's economic condition and an international situation that benefits Indonesia, in the implementation of Repelita Three efforts to change the industrial structure are being increasingly encouraged by the construction, and planned construction, of up-stream and basic industries such as those for steel compounds, aluminium smelters, cement, pulp and paper, fertilisers, hydrocracker, methanol, perfumes, olefin and others. While these industries are of a large-scale and require large investments, activities in the environment of small- and medium-scale industry have also increased through the production of the inputs needed by downstream industries, which has the effect of helping to change the structure of industry.

## STRATEGIC ELEMENTS FOR INDUSTRIALIZATION

From the foregoing discussion of strategic problems it can be concluded, that, from the point of view of the national interest and national aims, industrialization in the long-term must be directed towards changing the initial industrial patterns and structures by reinforcing and deepening the industrial structure to create a balanced economic structure centred upon industrial strength. For this, not all forms and every type of industry must be developed: industrial development which in the end will only weaken the industrial structure in particular and the economic structure in general, no matter how great its contribution towards quickly achieving a high growth rate in the short-term, must be avoided.

To achieve this long-term goal existing conditions must of course be taken into account and cannot simply be put aside. No matter what the character of the industries that have already grown, all existing industry must be optimally used. Consequently, in the short and middle terms attention needs to be given to the consolidation of existing industries so that their industrial capacity can be used optimally. For the development of new branch-industries, in a rather longer time-scale, industrial growth needs to be rationalized so that the pattern of future industrial growth will ensure the achievement of national development goals.

In any case, an industrialization strategy within the framework of national development must include two main elements: first, a strategy to reduce structural weakness and vulnerability in the industrial sector and which ultimately aims at reinforcing and deepening the industrial structure; second, a strategy to reorganize the pattern and structure of Indonesia's international trade by reducing the share of industrial products of total imports and by increasing the share of industrial products in total exports. Although both of these can be



pursued separately and individually, an optimal industrialization process requires an integrated approach in pursuing both of these strategic elements.

A strategy to reduce structural weakness can be pursued through attempting to fill the structural gaps in the industrial sector. Between the extremes in the spectrum of the stages of the production process the gaps are still very numerous: efforts to fill them which are not managed and are carried out randomly are dangerous since their effect would be to increase, rather than reduce, the structural weakness of the industrial sector.

In this connection, it can be noted that every product of a certain branch industry must go through a production process of various stages: the relationship between the production stages is that the output of one stage forms the primary input for the following stage. The production process can be of an "explosive" nature: various different processes take place in parallel, each process using one form of primary input and carrying out transformations which produce all sorts of products (for instance, the petrochemical industry which uses crude oil as a feedstock). The production process can also be of an "implosive" nature: various primary inputs are combined into a single product (for instance, motor vehicles).

The explosive process, unconditionally, needs basic industry to exist. Alternatively the implosive process, while needing basic industry, can be located at the final stage of the production process: the implosive process of motor vehicle manufacture can be in the form of simple assembly (all components including bolts are imported) or in the form of full manufacture (which requires depth of the industrial structure to the very beginning of the basic metal and chemical industries).

In reducing structural weakness not all structural gaps which could be filled in fact need to be filled. It all has to be related to the existing capacities and opportunities which, in a dynamic context, will ensure that the production process takes place efficiently. To manufacture a certain product, outputs of an explosive production process need to be continually processed in the following production stages so that later an implosive process is needed: for instance, after the petrochemical industry the production process needed to produce garments and plastic buckets is still long. Similarly, products of the explosive process will eventually require primary inputs from the implosive process. In addition, machines are needed both to make the intended product and for the manufacture of inputs -- as well as machines to make the machines. Because in reality the connections between industries are complex in nature, the selection of the efforts to fill structural gaps must be done carefully.

In this connection it should be noted that if, to reduce structural weakness, an effort to fill structural gaps is needed, that the filling of a structural gap will not necessarily reduce structural weakness. Structural gaps can be filled through the construction of factories to make industrial products domestically but if, for each production stage, the reliance upon imports does not lessen then the industrial structure is still basically weak. It could even become more vulnerable because the vulnerability towards processed imports is less than the vulnerability towards imported products of a fixed specification and brand which may be absolutely necessary for domestic production activities to continue.

So the filling of structural gaps to reduce structural weakness must be accompanied by the effort to minimize structural vulnerability. The latter means that in the overall production process of a particular industrial product the level and pattern of dependence upon imported inputs in the form of industrial goods has to grow less or, in other words, in overall production the share of value-added produced domestically must steadily increase. Therefore, the reduction of structural weakness is closely connected with changing the import pattern and structure by reducing the percentage of imported industrial imports in the overall cost of imports.

In practice, changing the composition of imports (so that the share of imported industrial products drops) and changing the composition of exports (so that the share of exported industrial products increases) cannot be strictly separated. The domestic market for the substitution of imported industrial inputs may be still too small for a minimum economy of scale: production can only be carried out efficiently when a share of its production can be exported, so that changing the imports pattern also involves changing the export structure. On the other hand, the reprocessing of the output of the primary production sector in the industrial sector to increase exported industrial goods does not mean that the whole of its produce must be exported: a part can be made into inputs to satisfy domestic production needs, so that changing the export pattern involves changing also the import structure.

From this last discussion it can be concluded that the two elements of the strategy mentioned above -- namely, reducing the structural weakness and fragility of the industrial sector and the reorganization of Indonesia's international trade structure -- basically forms one integrated strategy. The essence of this integrated strategy is based on the concept that industrializations is not simply identical with the development of various industries able to produce every sort of product, but is restricted to the development of industries that can strengthen and deepen the structure of industry; the orientation is towards, not the product, but the stages of the production process.



In fact it is this concept which is made the conceptual basis of the GBHN in determining the industrialization stages for each Repelita. The GBHN does not determine which industrial products are to be produced in each Repelita, but emphasis is given to the development of industry relating to the stages of the production process: beginning with the reprocessing of raw materials into basic goods, then shifting to the reprocessing of basic goods into finished goods and finally aiming to produce machines themselves. It can also be noted that the GBHN recognizes the principle of continuity relating to the implementation of each Repelita, so that these change-overs in the production stages does not mean that what was done in the previous Repelita must be separated from the implementation of the following Repelita. Therefore, even though in the fourth and subsequent Repelita the development of industries to process raw materials into basic goods will still be required, this is possible although the GBHN only mentions it for Repelita Two.

The implementation of an integrated strategy founded upon the basic concept of the GBHN concerning industrialization, and which is directly related to the strength of the Indonesian economic structure in general and to the progress already achieved by the industrial sector in particular, can be done following two routes. Firstly, by lengthening the stages of the production process so that the industrial sector is increasingly able to more fully reprocess the primary sector's produce (from agriculture, husbandry, fisheries and forestry, as well as from mining) and to use more energy source. In several cases this involves the development of basic industry and heavy industry that is capital-intensive and requires high technology. Secondly, by producing the inputs and machines or the components and spare parts needed to support the downstream industries that have already developed. From the start the effort must of course be made to ensure that the industries established by these two paths will eventually be linked such that the output produced by industries more upstream can be used in the production process of industries more downstream.

Industrial development via these two routes basically constitutes an attempt to use optimally Indonesia's natural resources and energy, as well as its manpower, and to ensure that industrial growth is also accompanied by increasing links both within industry and links between the industrial sector and other sectors of the economy. In this way an acceleration of the industrialization process can be achieved with a pattern of development able to create a strong and healthy structure of industry.

In these context, industrialization cannot be handled only by those active in the industrial sector. Acceleration of industrialization is a national question and must be handled in a coordinated fashion at the national level. With firm



coordination the implementation of this integrated strategy will make a meaningful contribution towards changing Indonesia's economic structure so that, as is intended by the GBHN, the industrial sector will be made into the backbone of the Indonesian economy, perhaps even by the end of Repelita Five.

## THE MECHANISM TO ACHIEVE INDUSTRIALIZATION

In the proceeding discussion it was suggested that an industrialization process that is, on the one hand, related to the initial pattern and structure of industry and on the other hand is reconciled with the direction of long-term economic development and the GBHN conception of industrialization, needs a strategy basically oriented to the production process and not to the industrial product. Although the process and the product are both interrelated, in the analytical sense there are principal differences between an orientation to product and an orientation to process for industrialization.

Firstly, a product-orientation is based upon a vertical approach (relating to structural depth of industry); on the other hand, a process-orientation is based upon a horizontal approach (connected to an expansion of the industrial structure). As an illustration, every country can construct factories to make television products but not all countries are capable of constructing factories for the manufacture of products needed in the television manufacturing process.

Secondly, product orientation can stop at the construction of downstream industry whereas an orientation to process can involve various branch industries each as far as the most upstream stage. The production of a garment factory can very easily be done without the existence of any other industry whatsoever, as long as all its needs can be imported. Alternatively, control of the production process of garments requires a large number of other industries: the manufacture of finished garments requires clothing material, thread and buttons; the manufacture of these products needs industrial materials and machines; the manufacture of materials and machines is needed to produce the abovementioned materials and machines, and so on, and can continue as far as the extraction of oil, coal, iron ore, the planting of cotton and animal husbandry.

Thirdly, product orientation can result in an industrial pattern in which each industry stands alone without ties one to another. On the other hand, a process orientation (unless all products at every production stage are for export) requires that there be interconnections within industry to be successful. Thus a process orientation can create a strong and sturdy industrial structure

whereas the structure resulting from a product orientation is very fragile since it tends towards expansion upon a narrow and shallow structural base.

Fourthly, industrial growth through an orientation to product will not necessarily result in multiplier-effects. On the other hand the multiplier-effects obtained from industrial growth through an orientation to process tend to become greater as the structure of industry deepens. Apart from that, because a product orientation does not necessarily give rise to ties between the industrial sector and other sectors in the economy, whereas a process orientation based upon the strength of the economy requires that interconnections be made, the multiplier-effects caused by the growth of other production sectors can also differ greatly. Because of that a process orientation makes more possible an acceleration of industrial growth and is more likely to guarantee that structural change of the economy, as a result of industrial growth, will occur.

Fifthly, in its operation the application of a process-oriented approach is far more complex and difficult to carry out. Thus, the determining of the mechanism for its implementation needs to be prepared carefully and accurately.

In the previous discussion it was suggested that a process orientation forms a conceptual basis for implementing two strategic elements in an integrated way; namely, deepening and strengthening the structure of industry and reorganizing the structure of Indonesia's international trade. In connection with the complexity of the problem of its implementation, following this there will be suggested several matters that need to be given attention in deciding upon the mechanism for its implementation.

### **Determining the Strategic Sub-systems in the Stages of the Production Process**

A product-orientation is very simply implemented because it gives quite clear possibilities for developing industry: usually the import figures for final products, which give a picture of the extent of the domestic market, can be used as a basis for determining the import-substitution industries to be established; similarly, when an import-substitution industry has already developed, the import figures for inputs can also become a basis for the determination of the suitability of constructing more upstream industries. On the other hand, for the process-orientation, import figures can be irrelevant while in principle, the industries which may be considered necessary to be established in pursuing the two strategic elements just mentioned, might perhaps be very numerous indeed.



In taking the two avenues of industrial development as have been mentioned previously, the problem which may arise is: to what extent will an industry established for upstream production stages be developed in a more downstream direction, and to what extent will industries established in the downstream production stages be developed more upstream? It is impossible to construct all industries that will reduce structural weakness and vulnerability and, in practice, also unnecessary. This possibility is made even smaller because an integrated strategy requires that industrial construction will also reorganize the overseas trade structure, which means that industry must be efficient and capable of competing with foreign industries.

In settling this question the main task that needs to be carried out is determining the strategic sub-systems in the production stages. To do this, a "family tree" of the branches of industry required to reach the goal pursued by the two strategic elements needs to be drawn up. Relating to the comparative advantages which exist, or may be created, and in connection with the wealth, natural resources and energy as well as Indonesia's manpower -- and the already existing industries -- then there can be chosen the particular production stages in which the construction of the branch industries will give a maximum impact. Thus, the determination of the strategic sub-systems of the production stages will provide a description of the necessary branch industries that can be constructed efficiently; in deciding upon these strategic sub-systems the size of imports and the extent of the domestic market need not be made the decisive factor.

### **Careful Planning and Integrated Management**

If the determination of the strategic sub-systems describes industries which need to be and can be established, available resources limits their development: what needs to be and can be established may not necessarily be possible to carry out. Thus, the available resources must be allocated optimally, and this requires careful planning in determining the stages of implementation.

In deciding upon a strategic sub-system, the question is of a technical, economic nature whereas for the planning of the optimal allocation of existing resources account must also be taken of socio-political considerations. Therefore the question of industrialization ultimately involves political aspects and requires that a national consensus exists, particularly since the industrialization process requires a long time scale and its results are not immediately apparent.

To give a dramatic example, whatever method is used to calculate it, it would appear that the investment per worker needed for a steel compound in-



dustry is far greater than is the case for a bamboo-weaving industry. If from the technical, economic aspect it is clear that both could operate efficiently, in their planning the question would arise as to which should be chosen such that the allocation of existing resources can be done optimally. Simple thinking in a static context would conclude that the bamboo-weaving industry be given first choice, whereas strategic thinking in a dynamic context would conclude the opposite.

This example was purposely suggested since a process-oriented approach would immediately indicate the necessity for constructing heavy industries and basic industries which are generally capital-intensive, require high technology and whose capacity to immediately absorb labour is very low; nevertheless, in a dynamic context, their multiplier-effect upon the provision of employment can be manifold. On the other hand, at first sight it appears that light industries are more labour-intensive and that if industrialization is subordinated to the employment of labour it may perhaps be concluded that it is too early to construct heavy industry. The problem is made even more difficult because of intellectual dilettantes who vainly exhibit foreign ideas without examining the problem more deeply in a national context.

For example, there are those who will say that the construction of basic industries is inconsistent with the concept of satisfying basic needs: the production of garments is within the framework of satisfying basic needs, but it does not mean that we must simply aim at becoming a nation of tailors; if the complexities of the industrialization problem are understood it will be clearly seen that the construction of basic industry connected with the production of garments is also an effort to satisfy basic needs more firmly. Similarly there are those who will charge that the construction of heavy industry does not reduce social imbalances and injustices for the bottom 30-40 percent in society, damages the environment, and so forth.

However it may be, careful planning without there being a national consensus can be confronted by complicated problems of principle. National consensus concerning the direction, form and pattern of the industrialization process which is made to accord with the national interest and goals is absolutely necessary and for this there is also needed the motivation of patriotism and a nationalistic spirit. With a national consensus the planning task, which is basically quite complex and complicated, can be carried out calmly and without being bothered by trifling problems which, when examined as to the totality of goals and the national interest, are basically irrelevant and their importance insignificant.

Because the industrialization process ultimately requires a national consensus, industrial development has aims that are broad but complete and in-

tegrated. In its planning and in its administration we cannot think and act individually or too specifically. As has been stressed by the President, the establishment of industry should be developed integrally -- both within the industrial sector itself and in its relationship with other sectors; because development of the industrial sector is not only closely related to the ability to supply basic goods but also to other sectors such as agriculture, fisheries and animal husbandry, mining, construction, trade, finance and banking, transport, education, labour, and so on. Industrial development must be managed so as to have positive results by opening other possibilities for the development of economic activities, for the appearance of new economic activities to support and absorb new industrial produce, for the increase of employment, for a widening of the demand for basic goods and services, and so on. Increasing the interconnecting bonds in the industrialization process requires national co-ordination and integrated management.

### **The Implementation of Development**

In the Indonesian economic system, whose ideal is Pancasila and whose constitutional base is the 1945 Constitution, a large part of development activity is carried out by, and depends upon, the initiative and response of the private sector including the cooperatives. Thus, although careful planning and integrated administration has been carried out, the realization of industrial growth can differ from the required industrialization process. In several cases the construction of industry in the pre-determined strategic sub-systems has not been carried out by the private sector including the cooperatives because the investment was too great, the risk too large or because of other considerations.

In the implementation of the industrialization process according to the required pattern, the role of the state is vital, not just in directing private activities, but by also actively participating through the activity of the state corporations. The active participation of state corporations is needed in an activity of a complementary nature with private enterprises: to raise national capacity, to become stabilizers for industrial products that have a vital role for development and that dominate the life of most people, to become a driving force of development by pioneering new activities in the industrial sector and in creating an equal distribution of development. State corporations are also a means for the absorption, flow and development of technology, as well as for developing national expertise and skills.

In any case, what is required is an order of national priorities for carrying out industrialization. To stimulate maximum private participation, this order of national priorities must be supported by a suitable system of incentives. In addition, this incentive system can be connected with the effort to ensure that



the interconnecting bonds between large- small- and medium-scale industry become stronger so that the growth of each can strengthen and complement the others.

### **Industrial Protection**

It is natural that newly-established industries obtain protection from imports. With a product-orientation the question is easily settled: a high import tariff is levied on every import substitution product. But this sort of industrial protection brings with it a negative effect since the consumers must carry a large burden and there is no tendency for this burden to be reduced. In addition, it is determined in an *ad hoc* way and is not necessarily in accordance with the order of national priorities.

With a process-orientation this form of protection will give rise to more negative effects (the interconnections between industries give rise to multiplier-effects with import tariffs so that the burden on consumers becomes increasingly heavy), and it is also ineffective. Therefore, the industrial protection system should shift from one of negative effect to one of positive effect: through the implementation of policies which, on the one hand help to achieve a reduction in the production cost components, and on the other hand, stimulate the market for industrial products both domestically (including an emphasis on domestic production for government purchases) and for export.

### **Standardization**

If in the product-orientation the use of industrial standardization is rather limited (especially in protecting consumers), for the orientation to process its role is vital in ensuring industrial development in the required direction. Without industrial standardization, the ties between existing industries in different production stages cannot be realized.

### **CONCLUSION**

This examination of the industrialization strategy in the framework of national development is particularly intended to clarify the challenges facing the industrial sector which is expected to be able to become the backbone of the Indonesian economy in the coming ten to fifteen years.

The initial analysis has indicated that, when examined from the long-term perspective and from the strategy and direction of long-term development as determined by the GBHN, the main operational question is how to ensure that industrial sector growth is also accompanied by change of the industrial structure. The GBHN has determined change in the economic structure as its long-term economic aim so as there will be achieved a balanced economic structure. The challenge faced nationally is clear when taking a lesson from the experience during Repelita One and Repelita Two which showed that rapid growth alone in the industrial sector did obviously not guarantee that a balanced economic structure would be reached. The question is how will and can there be continued the development efforts of the industrial sector which can take it from the existing condition in the direction of the national goals as determined by the GBHN.

The successes which had previously been made, added to the condition of the economy in an overall sense which has changed from that of ten or fifteen years ago, have required a new orientation in the industrial development strategy. This new orientation needs to be taken in the formulation of an implementation strategy but not in the formation of a new conceptual framework.

In this connection it is clear that the industrialization strategy in the framework of national development must include two main elements. Firstly, the strategy to reduce the structural weakness and fragility in the industrial sector which will involve a deepening of the industrial structure. Second, the strategy to reorganize the pattern and structure of Indonesia's international trade, namely, by reducing the share of industrial products in total imports and by increasing the share of industrial products in total exports.

The new orientation clearly requires an integrated strategy because industrialization is not identical with the simple establishment of various industries able to produce all kinds of products, but is aimed at the establishment of industries able to strengthen and deepen the structure of industry. In short, the orientation is not towards the product, but to the stages of the process of the product. The basis of the thinking of the GBHN has actually emphasized the establishment of industry linked to the stages of the production process: begun with the reprocessing of raw-materials into basic goods, then stepping to the reprocessing of basic goods into finished goods and after that going towards the activity of producing machines themselves.

That is the reason it has been said above that what is required is a new orientation that makes an acceleration of industrial development possible to be achieved. Similarly, the GBHN follows the principle of continuity in its relationship to the implementation of each Repelita. This means that, determining the changeover in these production stages, will not sever or stop the efforts



that have been carried out in the previous Repelita. Whatever the nature of the industries that have grown, all pre-existing industry must be used optimally. Therefore, in the short and medium-term, attention should also be paid to the consolidation of existing industries.

The adoption of this new orientation carries several consequences the most important of which is the necessity to deepen the structure of industry by the establishment of basic industries and upstream industries which are usually large-scale and require high investment and technology. Its implementation needs a national consensus because it will immediately involve the question of the allocation of financial resources that are still relatively limited. Nevertheless, it should already be clear that the long-term prospects will be very beneficial -- especially when examined from the point of view of industrial development itself or the overall development of the national economy. Efforts to deepen the production process of the industrial sector will very much help quite extensively the long-term growth and development of existing downstream industries as well as helping to reduce the vulnerability of these industries in the short-term and medium-term.

The deeper the production process which can be carried out domestically the greater will be the multiplier-effects which can be utilized domestically. Looked at from this dynamic point of view it will become increasingly obvious that the dilemma or conflict between equal distribution and growth which, it is feared, will become sharper as a result of the application of the new orientation, is actually unfounded and perhaps conceptually wrong. This new orientation stresses selectivity in deepening the structure of industry by the determining of strategic sub-systems that are able to optimize the linkages within industry or between the industrial sector and other sectors in the economy. Thus, the prospects for employment-generation and the effort that can assist the efforts for an equal distribution of enterprise and work opportunity in society, are growing greater.

For the abovementioned linkages, such managed and integrated efforts are needed so that, on the one hand, small-, medium- and large-scale industrial sectors can complement each other hand; on the other hand, growth of the industrial sector is not divorced from the growth and potential of the total economy. Even further still, the industrial sector can play a role as a vanguard for the achievement of national economic integration. These integrated efforts are an absolute necessity not merely because the problem faced has become increasingly complex but also especially for the integration of the national economy. Examined from this perspective it can be said that industrialization is of too great a significance in the larger strategy of national development to be given over only to those active in the industrial sector. Industrialization is truly a national challenge.

# The Pattern and Structure of Industry of the ASEAN Region

Basri HASANUDDIN

## INTRODUCTION

The stage of development of a nation's economy is usually measured by the size of its income per capita, whereas the degree of industrialization is measured by the contribution made by the industrial sector to national production. The comparison between the size of the production value of the industrial sector with national production is known as the "industrialization ratio."

The experiences of many states that have undergone industrialization, empirically shows that the level of a society's income is in direct proportion to this industrialization ratio, in the sense that a society's income increases whenever the industrialization ratio increases. This means that economic development will be stimulated by expanding the industrialization effort.

The industrialization process in many developing states, including the states of the ASEAN region, apparently displays the same strategy: industrialization through developing import-substitution industries. This "inward-looking" industrialization strategy begins with the industrialization stage of producing domestically various types of durable consumption goods, that were previously imported from overseas. This industrialization process continues with the importation of products (including capital goods, semi-processed goods and the other basic goods) that are needed to produce these consumption goods. The domestic market, prepared for these various forms of consumption goods, is enlarged by protectionist policies that constitute an additional ingredient of the import-substitution industrialization policy and

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this ensures the survival of these import-substituting industries. These facilities have also created opportunities for import-substituting industries to use large-scale production systems so that unit costs can be cut. Success in making use of such large-scale production can later increase the competitiveness of the consumption goods produced, on the international market, and the import-substitution industry later shifts to an industry for export.

It can be suggested that not all of these import-substituting industries succeed in reaching the final cycle as export industries. Success of this industrialization process, through the stages of: import-substitution -- export of industrial output, is determined by many factors. These factors include: (a) the capacity of the domestic market to allow large-scale production; (b) the availability of sufficient abilities and skills to produce such goods; and (c) there be a number of entrepreneurs who are bold enough to leap into industrial activities.

The other industrialization strategy, also followed by several industrial states in the East Asia region (South Korea, Taiwan, Hong Kong and also Singapore), is a more outward-oriented strategy. Unlike the inward-oriented strategy, the outward-oriented strategy, also called by Gustav Ranis<sup>1</sup> an export-substitution strategy, gives the same incentive to the production of goods both for the requirements of the domestic market and for export immediately after it shifts from a restricted import-substitution process. In other words, the stimulus for economic development is the increasing export of the output of industries that reprocess raw materials and basic goods domestically -- which are usually more labour-intensive. Export incentive is automatically provided by fixing a realistic foreign-exchange rate.

This paper will attempt to analyze the industrial structures and patterns of the ASEAN region. For this purpose the system of the writing is as follows: after this introduction, Part II will discuss the pattern and structure of industry in the ASEAN region. In addition, the paper also indicates how this structure has changed over time.

Part III will compare the results of the industrialization of the states in the ASEAN region (excluding Singapore) that followed an inward-oriented strategy with the other East Asian states (South Korea, Hong Kong and Taiwan) that have proclaimed an outward-oriented strategy from the start. This comparison will be viewed in the "growth with equity" context which is the ideal that has become the development objective for many states during the decade of the 1980s. Part IV is the summary and conclusion of this paper.

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<sup>1</sup>See Gustav Ranis, "Prospective Southeast Asian Development Strategies in a Changing International Environment," in *New Directions of Asia's Development Strategies* (Institute of Developing Economies, Tokyo, 1980), pp. 1-28.

## ASEAN: INDUSTRIAL PATTERNS AND STRUCTURES

Indonesia is one of the last states to begin the industrialization process, whether viewed from the angle of its industrialization-ratio or the cycle it is currently going through.

As can be witnessed in Table 1, relative to the three other ASEAN states, Indonesia's manufacturing sector does not yet play a significant part seen from its contribution to GDP, which was only 8 percent in 1960 and became 9 percent in 1979. Meanwhile, the manufacturing sector's contribution for each at the other ASEAN states was recorded as 19 percent for Thailand, 24 percent for the Philippines, 16 percent for Malaysia and 28 percent for Singapore in 1979. This can be understood since apart from Indonesia, the ASEAN states begun industrialization programmes in the 1960s.

Table 1

GDP DISTRIBUTION OF ASEAN MEMBER COUNTRIES BY ECONOMIC SECTOR,  
1960 AND 1979 (in percentage)

	GDP	Agriculture		Industry		Manufacturing <sup>1</sup>		Services	
	Per Capita 1979 (US\$)	1960	1979	1960	1979	1960	1979	1960	1979
Indonesia	370	54	30	14	33	8	9	32	37
Thailand	590	40	26	19	28	13	19	41	46
Philippines	600	26	24	28	35	20	24	46	41
Malaysia	1.370	37	24	18	33	9	16	45	43
Singapore	3.830	4	2	18	36	12	28	78	62

Source: *World Development Report*, 1981.

<sup>1</sup> The manufacturing is part of the industrial sector, but it is separated in this table since it constitutes the most dynamic part of the industrial sector.

While Indonesia is the state of the ASEAN region with the smallest industrialization-ratio, it was nevertheless the state of this region with the highest growth rate for its industrial sector in the 1970-1979 period. As can be seen from Table 2, the growth of the Indonesian manufacturing sector was recorded at 12.5 percent from 1970 to 1979. During the same period, Thailand recorded a growth rate for the manufacturing sector of 11.4 percent, the Philippines 6.7 percent, Malaysia 12.4 percent and Singapore 9.3 percent. For the service sector, Indonesia also occupies the highest placing with a growth



rate of 9.2 percent during the same period. In the meantime, Indonesia is fourth in the sequence for the agricultural sector with a growth rate of 3.6 percent during 1970-1979.

Another interesting fact which can be stated from Table 2, is that the ASEAN states generally recorded economic growth rates exceeding the average economic growth rate reached by the middle-income countries and the industrialized states. During the 1970-1979 period, the average economic growth rate of the grouping of middle-income countries was recorded as 5.5 percent and the grouping of industrial states recorded an economic growth figure of 3.2 percent. As can be witnessed in Table 2, the ASEAN states economic growth rate in the same period was above 6 percent annually.

Table 2

GDP GROWTH RATE OF ASEAN MEMBER COUNTRIES BY ECONOMIC SECTOR  
1960 AND 1979 (in percentage)

	GDP	Agriculture	Industry	Manufacturing	Services
Indonesia	7.6	3.6	11.3	12.5	9.2
Thailand	7.7	5.4	10.4	11.4	7.7
Philippines	6.2	4.9	8.4	6.7	5.4
Malaysia	7.9	5.0	9.9	12.4	8.4
Singapore	8.4	1.7	8.6	9.3	8.5
MIC <sup>1</sup>	5.5	3.0	6.5	6.6	6.0
IC <sup>2</sup>	3.2	0.9	3.2	3.0	3.4

Sumber: *World Development Report*, 1981.

<sup>1</sup>MIC = Middle Income Countries

<sup>2</sup>IC = Industrialized Countries

While this industrialization process was going on, various types of industry, especially industries producing consumption goods and capital goods, have been constantly developed through both national private investment and foreign investment. The process of establishing modern industries took place around the 1960s for Thailand, the Philippines and Malaysia, and during the 1970s for Indonesia. The distribution of value-added of the industrial sector according to its type is presented in Table 3.

Table 3

VALUE ADDED DISTRIBUTION OF THE INDUSTRIAL SECTOR OF  
ASEAN MEMBER COUNTRIES, 1977 (in percentage)

	Food Stuffs	Textile and Garments	Machines and Transportation	Chemicals	Others	Value Added (1975, US\$)	Industrial Value Per Capita (1975, US\$)
Indonesia	26	10	-	-	64	3.755	78
Thailand	38	7	8	6	41	n.a.	n.a.
Philippines	38	11	8	10	33	4.761	541
Malaysia	21	9	17	5	48	2.363	n.a.
Singapore	6	5	43	5	41	1.815	1.874

Source: As to Indonesia, the Philippines, Malaysia and Singapore: *World Development Report*, 1981; as to Thailand: Somsak Tambunlertchai, "Import Substitution and Export Expansion: An Analysis of Industrialization Experience in Thailand," *Research Report Series*, No. 31, (Faculty of Economics Thammasat University), May 1981.

The information which can be taken from Table 3 is that, with the exception of Indonesia, the ASEAN states have successfully developed various forms of industry while at the same time increasing the per capita industrial output of each state. As can be seen in Table 3, the value-added of Indonesian industrial sector in 1977 was a contribution of the food industry and textile/clothing industry with a value-added in 1977 (using 1975 constant prices) of US\$ 3.8 billion. With quite a large population, this value-added figure for industry produces a per capita value for industry in 1977 of US\$ 78 (1975 constant prices) which is the lowest per capita production value in the ASEAN region.

The industrialization process, besides changing the domestic production structure, also alters the overseas trading structure of those countries that carry it out. As suggested in the previous section, the success of import substitution industries in making use of large-scale enterprise as a result of market expansion will allow these industries to produce industrial goods with a low unit cost, so that the goods produced will be competitive in the international market. Thus can import-substitution industries develop into export industries, the final cycle of the industrialization process. The truth of this is shown by Table 4.

As is to be seen in Table 4, the export of primary commodities plays a smaller role for all the ASEAN states, whereas the export of minerals and other metals, as well as other industrial goods, steadily increased in proportion from 1960 to 1978. With the exception of Indonesia, the export of industrial



Table 4

EXPORT TRADING STRUCTURE OF ASEAN MEMBER COUNTRIES,  
1960 AND 1978 (in percentage)

	Oil, Minerals and Metal		Other Primary Commodities		Industrial Commodities	
	1960	1978	1960	1978	1960	1978
Indonesia	33	72	67	26	-	2
Thailand	7	11	91	64	2	25
Philippines	10	14	86	52	4	34
Malaysia	20	27	74	52	6	21
Singapore	1	31	73	23	26	46

Source: *World Development Report*, 1981.

products proportionately increased significantly to 21 percent for Malaysia, 25 percent for Thailand, 34 percent for the Philippines and 46 percent for Singapore of their total export revenue. These facts support the previous hypothesis that the Philippines, Thailand and Malaysia have entered the final cycle of the industrialization process and have entered the echelon of the "newly industrializing countries" according to the criteria of Prof. Hans Singer.<sup>2</sup>

Table 4 also makes it clear that Indonesia in 1978 had only been able to export industrial products of 2 percent of its total exports, a fact which proves that Indonesia is only at the opening stage of its final industrialization cycle. Whereas Singapore has reached a relatively advanced industrialization stage, compared to the other ASEAN states, with industrial exports of 46 percent of its total export revenue.

As suggested previously, success in entering the cycle of industry for export very much depends on the incentives provided by each state for export commodities in promoting exports, market conditions in the importing states and the promotion efforts carried out overseas by each industrial enterprise to increase the sale of the commodities it produces. For Thailand, for instance, success in increasing its industrial exports has particularly resulted from the persevering efforts of each industrial enterprise in seeking and expanding overseas markets by improving the quality of its production -- although it is acknowledged that international market conditions for certain labour-

<sup>2</sup>See Hans W. Singer, "The Role of the Newly-Industrializing (Middle Income) Countries in the World Economy," in *New Directions of Asia's Development Strategies*, *ibid.*, pp. 71-80.

intensive industrial products (such as textiles, footwear and garments) has also helped.<sup>3</sup>

Table 5

## IMPORT STRUCTURE OF ASEAN MEMBER COUNTRIES, 1960 AND 1978 (in percentage)

	Foodstuffs		Oil		Other Primary Commodities		Machinery and Transportation Equipments		Other Manufactured Goods	
	1960	1978	1960	1978	1960	1978	1960	1978	1960	1978
Indonesia	23	18	5	9	10	6	17	36	45	31
Thailand	10	4	11	21	11	9	25	31	43	35
Philippines	15	8	10	21	5	7	36	27	34	37
Malaysia	29	17	16	13	13	7	14	34	28	29
Singapore	21	10	15	24	38	9	7	29	19	28

Sumber: *World Development Report*, 1981.

An industrialization programme is also reflected by the composition of imports moving in the direction of steadily fewer imports of consumption goods and the growing importation of capital goods and basic material inputs. As can be seen in Table 5, the composition of the ASEAN states' imports significantly changed during 1960-1978. The import of foodstuffs, and other industrial produce classified as consumption goods, significantly declined during the 1960-1978 period. As can be seen in Table 5, Indonesia's imports of foodstuffs was recorded at 18 percent of its total imports in 1978 compared to 23 percent in 1960, whereas the import of machinery and transportation equipment rose from 17 percent of total imports in 1960 to 36 percent in 1978. In the meantime the importation of oil, the engine of industrialization, rose in all ASEAN states except Malaysia which together with Indonesia is an oil-exporter. The percentage of oil imports of total import expenditure for the three ASEAN non-oil-exporters in 1978 was 21 percent for Thailand and the Philippines, and 24 percent for Singapore.

<sup>3</sup>Samsak Tambunlertchai, "Import-Substitution and Export-Expansion: An Analysis of Industrialization Experience in Thailand," (*Research Report Series*, Faculty of Economics, Thammasat University), May 1981.



The facts mentioned above indicate that the ASEAN states are now at differing stages of industrialization, as reflected by the industrialization-ratio differing one from another, the proportion of export of manufactured goods as well as other industrialization indicators. With this above analysis we can now begin a discussion of the industrialization strategy and its influence on the social life of each state.

### INDUSTRIALIZATION: IMPORT-SUBSTITUTION VERSUS EXPORT-SUBSTITUTION

As explained previously, the ASEAN states succeeded in reaching quite high economic growth rates, exceeding the average economic growth rates of the middle-income states and the grouping of industrialized states. With the exception of the Philippines, which had a rate of GNP growth of 6.2 percent during the 1970-1979 period, the other ASEAN states recorded GNP growth figures above 7 percent annually.

Another group of states recording high economic growth figures during 1970-1979 were states located in East Asia: Taiwan, South Korea and Hong Kong.

The interesting fact of the success of these two groupings in maintaining high economic growth rates is that these two groupings pursued different industrialization strategies in developing their individual national economies. The grouping of ASEAN states, with the exception of Singapore, in developing their national economies followed an inward-looking development strategy: namely an industrialization strategy concentrating on import-substitution industry. Meanwhile the second grouping (which includes Singapore) has from the beginning followed an outward-looking strategy that emphasizes increasing the export of manufactured produce which is both labour-intensive and has a dynamic comparative advantage, the shift from an import-substitution policy to promoting exports and the development of the agricultural sector (especially of food production) and the industrial sector also receives prime attention. It is this that is termed, *a la* Ranis,<sup>4</sup> export substitution.

To compare the import-substitution (inward-looking) strategy, with the export-substitution (outward-looking) strategy is interesting and important because there are empirical facts which indicate that the states following the course of development via these two strategies have proved to be successful in

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<sup>4</sup>See Gustav Ranis, *op. cit.*, pp. 7-9.

achieving quite high growth rates accompanied by relatively fair income distribution (growth with equity). As can be witnessed in Table 6, Taiwan, South Korea and similarly Singapore, during the past decades continuously show high GNP growth figures with GINI coefficients that stay at around 0.3-0.4, whereas the GINI coefficients for the ASEAN states (excluding Singapore) show figures above 0.4.

In connection with this problem of growth with equity Prof. Ranis, amongst others, suggests that:

"Proceeding then to an examination of the past performance of the countries in the region, one group which emerges, characterized by unusually rapid growth rates (in excess of 10 percent annually during the last decade) combined with good distributional outcomes, contains Taiwan, South Korea, Hong Kong, and Singapore... We also note that a second group which also has experienced growth at a respectable rate, i.e., better than 6 percent annually, but whose internal equity problems are more serious and have worsened over time rather than improved, includes certainly the Philippines and Indonesia and, to a lesser extent, Thailand and Malaysia."<sup>5</sup>

Concerning the development policies of the ASEAN states, Prof. Ranis continues:

"The main fuel in this type of development context has been traditional exports, and the main engine has continued to be import-substituting industrialization under relatively heavy protection of one kind or another, plus all the other components of the arsenal of import-substituting intervention which have been explained and analyzed ad nauseum. Growth has been achieved then, by and large, as a consequence of a good natural resource endowment, an adequate entrepreneurial base, and the support of foreign capital first, and later private investment."<sup>6</sup>

Why have the states following an outward-looking strategy been more successful in creating rapid economic growth accompanied with a more just income distribution (growth with equity)? According to Prof. Ranis, there are several factors causing the success in realizing growth with equity by the abovementioned states in the East Asia region (Taiwan, South Korea, Hong Kong).<sup>7</sup>

The first factor is that these states, while they also followed an industrialization policy of import-substitution during the initial phase of their industrialization processes, the policy was nevertheless not too extensive when compared with what was carried out by states following an inward-looking strategy. This is reflected in relatively-lower tariff levels so that when the

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<sup>5</sup>*Ibid.*, p. 2.

<sup>6</sup>*Ibid.*, p. 3.

<sup>7</sup>*Ibid.*, pp. 7-9.



Table 6

## ECONOMIC INDICATORS OF SOME ASIAN COUNTRIES

	1950	1960	1970	1973
<b>1. Taiwan</b>				
GNP growth rate/capita	4,8	6,2	9,4	
Export growth rate	8,4	21,2	31,0	
Export/GNP	11,9	11,9	32,6	32,5
X industrial/X total (percent)	7,8 ('52)	32,3	78,7	84,6
GINI coefficient	0,58 ('53)	0,47 ('61)	0,28 ('72)	0,29 ('74)
<b>2. South Korea</b>				
GNP growth rate/capita	2,6	6,2	9,1	
Export growth rate	7,4	30,1	39,5	
Export/GNP	2,0	2,4	14,7	29,4
X industrial/X total	-	14,0	77,4	87,7 ('75)
GINI coefficient	-	0,34 ('66)	0,37	0,42 ('75)
<b>3. Hong Kong</b>				
GNP growth rate/capita	3,6	6,8	6,1	
Export growth rate	2,7	11,0	6,9	
Export/GNP	138,3	78,2	89,7	87,2
X industrial/X total (percent)		80,0	93,0	92,6 ('75)
GINI coefficient			0,43 ('71)	
<b>4. Singapore</b>				
GNP growth rate/capita		7,0	10,3	
Export growth rate	-		-	
Export/GNP			81,9	87,2
X industrial/X total (percent)		26,0	27,8	44,7 ('75)
GINI coefficient	-	-	-	-
<b>5. Indonesia</b>				
GNP growth rate/capita	1,6	1,9	5,4	
Export growth rate	4,9	4,7	36,2	
Export/GNP	12,1	13,4	14,5	28,9
X industrial/X total (percent)			1,9	2,1
GINI coefficient			0,46 ('71)	
<b>6. Malaysia</b>				
GNP growth rate/capita	0,3	3,1	4,3	
Export growth rate	1,9	5,4	5,6	
Export/GNP	57,5 ('55)	54,2	49,5	48,2
X industrial/X total (percent)		6,0	26,1	30,4 ('75)
GINI coefficient	0,44	0,57	0,52	
<b>7. The Philippines</b>				
GNP growth rate/capita (%)	3,9	2,3	3,7	
Export growth rate	4,3	5,9	12,5	
Export/GNP	17,4	13,3	13,9	16,3
X industrial/X total (percent)	7,0	7,5	20,6 ('75)	
GINI coefficient	0,49 ('56)	0,50 ('61)	0,49	
<b>8. Thailand</b>				
GNP growth rate/capita	2,6	4,8	2,7	
Export growth rate	2,1	8,3	11,0	
Export/GNP	23,6	16,8	17,3	19,9
X industrial/X total (percent)	-	2,0	16,4	22,6
GINI coefficient		0,51 ('62)	0,50	

import-substitution industries experienced a lack of activity during the 1960s, these states easily shifted toward their export industries which had, from the start, received attention through various export promotion policies (a realistic foreign exchange-rates policy, other automatic incentives, and so on).

The second factor is that these states, in the initial phase of the industrialization process, showed clearly that they would not ignore the agricultural sector and, especially, increased the production of foodstuffs. In fact, investment in irrigation and infrastructure in rural areas had been implemented most intensively since the Japanese colonial period in Taiwan and South Korea. A policy of increasing the production of the agricultural sector could be achieved through preventing the terms of trade between the agricultural and industrial sectors from harming the agricultural sector, a fact not often come across in states going through the industrialization process.

The third factor is that these states, from the start, have paid attention to increasing work opportunities in the non-agricultural sector--especially the industrial sector -- through a decentralized industrialization policy. In this way village households could obtain about 30-50 percent of their income from village industrial activity.

The fourth factor is that these states have been more successful in developing more labour-intensive production technology whether measured by its capital-labour ratio or seen from the labour-share of production value. As an illustration, it can be mentioned that the labour-share of industrial production value is recorded at about 0.65 in Taiwan compared to about 0.50 in the Philippines, a figure which is tending to decline further.

Finally, the last factor is that the preconditions for these East Asian states differed from those of the states in the ASEAN region (excluding Singapore). One beneficial condition was that these states had successfully carried out a land-reform programme so that a relatively more just distribution of land ownership had been created after the Japanese occupation or after South Korea and Taiwan became independent after the end of World War II. Other preconditions that had an influence on the success of the growth with equity strategy was a high literacy rate, an ethic of hard work, enthusiasm for saving and various other socio-cultural factors.

From what has been mentioned above, it can be appreciated that the success of the states in the East Asian region (South Korea, Taiwan and Hong Kong) following an outward-looking strategy in developing their economies -- as reflected by quite high GNP growth figures together with relatively fair



income distribution -- is especially due to success in developing industries possessing a dynamic comparative advantage such that export substituting industries could be developed before the import-substitution process expanded.

Relating to the resilience and integrity of the national economies of those states following an outward-looking strategy in the face of difficulties and disturbances caused by external events, Bela Balassa has said the following:

"The findings point to the advantages of outward-oriented policies for export performance and for economic growth in the face of external shocks. Countries applying such policies experienced increases in their export market shares while losses in market shares occurred in countries characterized by an inward-orientation. Reliance on export promotion under an outward-oriented strategy, in turn, favorably affected...."<sup>8</sup>

Although empirical reality has proved that states following the outward-looking strategy have successfully attained quite high economic growth rates accompanied by a relatively fair income distribution -- as well as being relatively resilient when faced with disturbances caused by external events -- it may be unwise to unreservedly recommend this development strategy for the states of the ASEAN region. This is particularly the case, not only because there are differences in the preconditions of these two groupings as suggested above, but it is also difficult to imagine the difficulties to be faced by a state trying to shift to an export substitution strategy from where it has extensively, and for a long period, followed an import-substitution strategy. One illustration to be advanced is the difficulty experienced by Malaysia and the Philippines in exporting their plywood, an industrial commodity whose raw material is produced by these two states, because of fierce competition in both quality and price with the export production of South Korea and Taiwan.<sup>9</sup>

Nevertheless, it may need to be suggested that the time has come to seriously and systematically develop an industrial policy able to encourage the export of manufactured goods produced from domestic raw materials in the framework of creating a high economic growth rate together with a relatively just income distribution.

In developing the export of manufactured products originating from domestic raw material products, there are several positive factors on hand: (a) there are several types of basic industries as a result of industrial development in Indonesia, and (b) the wages of workers is relatively low and the wages of workers in the other industrialized states tends to increase.

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<sup>8</sup>Bela Balassa, "The Newly-Industrializing Developing Countries After the Oil Crises" (World Bank Staff Working Paper No. 437, October 1980), p. 53.

<sup>9</sup>See Akira Hirata, "Export Substitution in Asia: A Speculative Approach to the Case of Plywood," in *New Directions of Asia's Development Strategies*, op. cit., pp. 184-199.

To increase the export of the manufactured goods produced by industry there are several available alternatives. Firstly, that activity may be begun on a small scale by using domestic labour and capital, and later increased after the capital, technology and market have developed in stages. The second alternative is to import the technology from overseas, supply the capital domestically and then develop the market. The third alternative is to invite foreign investors and their capital, equipment and technology while encouraging maximum domestic participation.<sup>10</sup>

## CONCLUSION

A conclusion which can be taken from the foregoing analysis is that the ASEAN states during the 1970s successfully achieved quite a high economic growth rate, even higher than the average economic growth rate achieved by both the middle-income grouping of states and the industrialized states. From 1970 to 1979 the ASEAN states achieved a growth rate of GDP between 6.2 - 8.4 percent annually. Indonesia's growth rate of GDP during this period was recorded as 7.6 percent annually.

One of the factors stimulating this growth rate of GDP was the success of each state in developing various sectors of its economy -- particularly the industrial and service sectors. During this period the industrial sectors of the ASEAN states grew between 8-11 percent annually while their service sectors grew by between 5.5 - 9.2 percent annually. During this period Indonesia recorded the highest service sector rate of growth of 9.2 percent annually. Meanwhile the agricultural sectors only grew at a rate between 1.7 percent for Singapore and 5.4 percent for Thailand.

The industrialization programme carried out by each state, apart from changing the economic structure of each state, has also successfully changed both the export and import trading structures. With the exception of Indonesia, all the ASEAN states have successfully shifted from the import-substituting industry cycle to an industrial cycle as reflected in the steadily increasing proportion of manufactured exports of each state. In 1978 the manufactured exports of the ASEAN states was 2 percent for Indonesia, 25 percent for Thailand, 36 percent for the Philippines, 21 percent for Malaysia and 46 percent for Singapore of the overall 1978 export revenue. The fact that Indonesia only succeeded in exporting about 2 percent of its export income in the form of manufactured exports, proves that Indonesia is only just at the open-

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<sup>10</sup>See Basri Hasanuddin, "The Competitiveness of Indonesia's Exports of Manufactures," *ibid.*, pp. 119-137.



ing stage of the cycle of industry for exports after having gone through the import substitution process.

By paying attention to their industrialization policies and other indicators, it can be seen that the ASEAN states (with the exception of Singapore), have undergone industrialization through the inward-looking strategy. This is to be distinguished from the outward-looking strategy adhered to by states in East Asian (South Korea, Taiwan and Hong Kong). Various prominent economic observers (Gustav Ranis, Bella Balassa, Hans Siregar) found that the industrialization strategy that is outward-looking in nature, or "export-substituting" à la Ranis, is the key to the success of the states in East Asia in creating high economic growth rates accompanied by a situation of steadily fair income distribution. Conversely, the industrialization policy by an inward-looking strategy such as that pursued by the ASEAN states with the exception of Singapore, although succeeding in creating relatively high economic growth rates, has in fact been less successful in overcoming the problem of the income distribution imbalance of each of these states.<sup>11</sup>

One effort which can be made to overcome the income distribution imbalance in the ASEAN states, and in Indonesia in particular, is immediately shifting from import-substituting industries to export-substituting industries by developing and promoting capital-intensive export commodities and the exports of industries with dynamic comparative advantages. Although the shift from the import-substitution industry cycle to the cycle of industry for export constitutes the most difficult phase of the industrialization process, this effort nevertheless demands increasingly serious and systematic implementation.

It is quite pleasing that steps in that direction have been made amongst the ASEAN states, especially in Indonesia, by various export promotion policies for industrial goods containing increasingly great local content. What should be emphasized here is that these measures be carried out more systematically.

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<sup>11</sup>Concerning trends of income distribution in the Asian states, see Harry T. Oshima, "Notes on Trends in Asian Household Income Distribution: An Overview," (Discussion Paper, Gadjah Mada University, November 7, 1981).

# ASEAN Industrial Cooperation

Mohammad SADLI

## I

Although ASEAN was formed in 1967, economic cooperation did not gain momentum until after the 1976 Bali Summit. And even up to now, this cooperation within ASEAN has not made great strides. Differences in the national interests of the member states are still slowing down such cooperation. While some people thus feel disillusioned with the results achieved, others are more optimistic that, if we are patient and prepared to wait, structures of cooperation will inevitably mature and bring results. Attempts at economic cooperation in other continents, such as in Europe and South America, didn't succeed in the short term either. The process of cooperation, coordination and integration between sovereign states, although they may share the same view as to long-term goals, always requires a long time.

ASEAN economic cooperation has the objective of increasing trade between the ASEAN states, involving outputs of the primary, secondary and tertiary sectors. The secondary, or manufacturing sector, is a very important sector since the ASEAN states are now building up their industries. Growth of the industrial sector has always exceeded that of the agricultural sector -- and even that of mining. Although the tertiary sector has also grown quite rapidly, not all services can be sold overseas: many services are non-tradeable. So it is the industrial sector which is in the long run the source of new trade.

In their first stage of industrialization, the trade of manufactured goods between the ASEAN states is very limited. Most imported manufactured

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goods come from the advanced countries such as Japan, Europe and America. The new industries now growing in the ASEAN countries are generally small in scale and are still plagued by various high-cost problems. Based on free competition, it would be difficult for them to hold out against the industries of the advanced countries. Many developing countries, including ASEAN states, protect the growth of their domestic industries with high import tariffs, with import quotas or prohibitions, with subsidies, and so on.

So if we want trade between the countries of ASEAN -- in this case manufactures -- to develop, such trade needs also incentives and protection. Therefore a system of government intervention in regional trade has to be developed. Without it, regional trade in manufactures would take place very slowly.

A complicated problem for governments, still preoccupied with protecting the growth of domestic industry, is: why and to what extent should the industrial development of neighbouring countries be given incentives, where this may damage the development of infant national industries?

The answer must be based upon political considerations and objectives. We need to believe that the development of neighbouring countries, and joint regional development, will ultimately reinforce national development and strengthen national resilience. Such a political ideal can be regarded as an extension of our faith in domestic nation-building: that Indonesia will in the end become far stronger as a unified state rather than our archipelago being divided into a number of separate countries or states.

To a certain extent, the incentives provided for imports from neighbouring countries will not result in reducing the level of protection for domestic industry. Often domestic industry is unable to satisfy domestic need and there will be imports from overseas. These imports generally come from the industrialized countries and protection in the form of tariffs, for example, has the function of equalizing the retail price of imported goods -- which have cheaper landed costs because of the efficiency of overseas industries -- with the rather high cost of domestically-produced goods. If the tariff on imports from neighbouring states is to be reduced by 25 or 50 percent, for example, then these goods may compete better with goods from Japan or Europe and in the process domestic industry would not be greatly hurt. What would be sacrificed are imports from the advanced countries. This latter is the essence of the principle of preferential trade and has been put into the form of Preferential Trading Arrangements (PTA) between the ASEAN states. Consequently, PTA is the cornerstone of the various industrial cooperation schemes between the ASEAN states.

During the first stage of industrialization, oriented towards "import substitution," industry is often yet unable to satisfy domestic demand and thus imports from neighbouring countries based on PTA become a possibility. However, the domestic market for consumption goods and for simple products after a while will be met by domestic production, and imports will be greatly reduced. In the meantime the importation of industrial or intermediate goods will grow.

Industrial cooperation between countries that are going through stages of industrialization must be based upon a viable basis of specialization. Such specialization has the following principles.

The first principle is economies of scale. Several categories of goods require large-scale production to be efficient and this by itself needs large market -- one not to be found in a single ASEAN country. Such is generally the case for intermediate goods: semi-processed goods, spare parts, components for an assembly process, and such like. For the current stage of development the market in individual ASEAN countries is often still limited, where efficient production technology requires large-scale units. Thus intermediate goods are the main choice for an ASEAN cooperation in industrial investments.

When the prosperity of the ASEAN states increases, many goods can be traded regionally to satisfy particular tastes and according to particular product differentiation. Similar practices often take place between advanced industrialized nations. Germany, for example, exports Mercedes cars to France and France markets its Peugeots in Germany. We can imagine Indonesia exporting Bintang Beer to its neighbours and importing beers popular in Singapore and Thailand. For medicines there are also many opportunities for exchanging goods according to specialization or product differentiation. Although all ASEAN countries have generally achieved, or will reach in the future, a level at which the demand for textiles and other clothing is satisfied domestically, regional trade of various types and qualities of textiles can take place, especially for quality goods. Once again, the PTA will encourage this regional trade.

The patterns of cooperation described here are the basis for the "division of labour and specialization" between the ASEAN states in the long-term or in an overall sense. However, this can give no planning guidance for the distribution of industries between nations "now or in the short-term." The problem of "who should get what industry now" involves considerations of equity. When, for example, the production of spare parts for assembling motor vehicles must be allocated between ASEAN member countries, the theoretical principle (i.e. scale economies) outlined above can provide no rational answer. The measure to use is that "benefits should be equitably shared."



Disadvantage in the form of opportunities lost should also be taken into account. A division or allocation of specialization may (in practice) require protection in the form of special rights or exclusivity. This means that for several years an ASEAN project in a particular country must be free of competition from new entry. This right to exclusivity makes up a part of the package of incentives and protection.

What should be made subject to more detailed review are the elements of the incentive-and-protection packages for ASEAN industrial cooperation. The PTA regime is needed beyond question. However, are special preferences also needed and how much? Does this mean more PTA (in the form of deeper cuts in the import tariffs) than the general preferences for all ASEAN states? Is the privilege of exclusive entry for several years an absolute necessity? What about the request for "national treatment?" Concerning the number and form of incentives and protection, there is no established theory. They constitute historical accumulation of policies, and may be reflective also of the particular conditions of the time. A similar situation applies in the development of incentives to attract foreign investment (ASEAN industrial projects are essentially foreign investment or joint ventures). In the advanced industrial countries rarely are there special incentives needed for foreign investment. But they exist in most developing countries and are often numerous.

## II

ASEAN knows three modules of cooperation for industrial projects: (1) ASEAN industrial projects; (2) ASEAN complementation schemes; and (3) ASEAN industrial joint-ventures.

The first category (ASEAN industrial projects) are large-scale projects producing semi-processed or intermediate goods that are owned and operated jointly by the ASEAN governments with the host state having the biggest share. The output is marketed within ASEAN, but a part can be exported. These projects have to be based firmly upon the comparative advantage of the host country, in the form of raw materials, energy sources or other factors of production to be found in plentiful supply. Of these projects only the ASEAN fertiliser project in Indonesia is in an advanced stage of implementation, followed by a similar project in Malaysia. The projects in the Philippines and Thailand are not yet determined or implemented. Thailand's project for Rock Salt/Soda Ash is still being considered and studied for its economic feasibility -- also by Japan which has promised financial aid for the projects in this category. The Philippines at first suggested a Superphosphate/Ammonium Sulphate fertiliser project, however, it could not establish its commercial

feasibility, so that it was eventually retracted as an ASEAN project. Its replacement is as yet unclear, although a copper fabrication project has been proposed.

Singapore initially suggested a diesel engine project since it has now raw materials and its comparative advantage is in its technical manpower, technology and capital. However, the project was unable to win agreement of the other ASEAN states and to date there have been no new concrete proposals.

For ASEAN Industrial Projects (AIP) the governments' share is prominent, however private business can also participate as a minority shareholder. Whether non-ASEAN private business, for instance possessing technology, can also take an equity is unclear; the possibility may not be foreclosed. The involvement of all five ASEAN states cannot be an absolute precondition -- for practical reasons. Singapore, for example, is reluctant to take part in fertiliser projects since it has practically no agricultural sector. To reconcile the participating states national interests is not simple. The price of fertiliser in Indonesia, for example, is kept low by the government -- which may not benefit the other states as shareholders. How then to ensure a fair rate of return for such a project? Indonesia had to grant a low price for its natural gas, so that it can be said that Indonesia is subsidising this project. Thus the "viability" of a project does not depend on the market price and on production costs alone, but also on the structure and condition of the market, and on price determination in the future. It is not surprising that the preparation of, and agreement on, these AIP projects had been proceeding with such difficulty.

The second category, the ASEAN Industrial Complementation (AIC) scheme, has up till now reached agreement on only the components for one branch industry: motor vehicles. The AIC scheme consists of a number of projects (five, in keeping with the number of ASEAN states) and makes up a package for a certain sector of industry, in this case motor vehicles. In each of the five states a manufacturing project is undertaken to make components. What is produced by every project can be marketed in the ASEAN states based on PTA.

The AIC scheme is still very recent. Although preparations have been going on longer, the Basic Agreement on ASEAN Industrial Complementation was only approved by the council of (Foreign) Ministers on 18 July, 1981. Before a package of projects can be implemented, many discussions must be held, an important one is on the trade preferences to be granted. Previously, in September 1980, the industrial and economic ministers had agreed upon a package for the first and second automotive complementation projects, with the following allocation (as an example, only the first package is given):



## FIRST PACKAGE

Indonesia	= Diesel Engines (80-135 HP).
Malaysia	= Spokes, nipples and drive chains for cycles and timing chains for motor vehicles.
Philippines	= Ford body panels for passenger cars.
Singapore	= Universal joints.
Thailand	= Body panels for motor vehicles of 1 ton and above.

Consultations over trade preferences began in January 1981 in Singapore at the eighth meeting of the Trade Preferences Negotiating Group (TPNG) of the Committee on Trade and Tourism (COTT).

To date, there has been agreement reached on only the first and second package for the automobile industry. Other possibilities relate to the electric and electronic goods industry, light machinery industry, steel and other metal industries, and the pulp and paper, chemicals, glass, rubber goods and food processing industries.

The third category, the ASEAN industrial joint-ventures schemes (AIJV), is the most recent concept. As is the case for AIC schemes, AIJV are also prepared for the private sector. It is expected that AIJV can be launched more simply and more rapidly, since they only require the participation of at least 2 ASEAN member countries and because the capital needed for such a project is often not as great as that for the other schemes. Where the AIC is a package of projects and the determination and country allocation of its component projects is difficult, an AIJV constitute a single project. However, AIJV are expected to obtain various facilities and protection from the host state and PTA from other states, so it is possible that the ASEAN states, having to provide a special PTA, will feel reluctant if they don't see a fair distribution of benefits between participating states. If this occurs, then an individual AIJV project becomes part of an AIJV package. The document for the Basic Agreement on AIJV has, as its third paragraph, the following: "Whenever feasible, AIJV products are to be equitably allocated between the participating countries."

It is still too early to say whether AIJV will develop more rapidly than AIC schemes. Provisions that are expected to stimulate AIJV include preferential tariffs (reductions of 50 percent or more), exclusivity for 2 or 3 years and (probably) national treatment. For Indonesia these may seem a too big a concession. An AIJV scheme must involve at least two ASEAN countries and the size of the ASEAN shares must be at least 51 percent. For the remainder, other parties may participate. Thus an AIJV may constitute a foreign investment with an ASEAN share of at least 51 percent.

### III

ASEAN cooperation up to now does not have as objective the economic integration of the five member states. The aim of forming a common market, such as that of Europe, has not been an ASEAN objective. On the other hand, the current situation of very limited trading between the member states, cannot be allowed to continue. Thus ASEAN economic cooperation can be described as undergoing the first steps in the process of eventual integration. The formulation of, and the process of extending and deepening the PTA, is its chief means for this, and coordination of industrialization is encouraged by means of AIP, AIC and AIJV (supported by foreign investment).

This process has so far proceeded only slowly, due to the great differences in national interests between the individual ASEAN states. The five ASEAN states do not form a homogenous bloc. Indonesia is the largest country, measured by its total population, but has the lowest per capita income. Singapore, on the other hand, is a very small state but has a high per capita income. The level of industrialization is greatest in Singapore and lowest in Indonesia. Indonesia has up to now pursued inward-looking industrialization -- one oriented to import-substitution with high protection. It is reluctant to open its markets, regarded as its crucial asset for industrialization. Conversely, Singapore is a very open market in which import tariffs are non-existent or very low. Thailand, Malaysia and the Philippines are in-between. More recently industrialization in these three countries has become export-oriented, although protection in the Philippines up to recently remained high.

Hence Indonesia has produced an image of ambivalence towards ASEAN industrial cooperation. It is Indonesia that appeared most sensitive over the question of equity and the sharing of benefits in these ASEAN cooperative schemes.

On the other hand, if Indonesia really believes that its archipelago will develop fastest by means of an integrated economy in a unified state, then in its regional relation it should be open to the proposition that the development of the Southeast Asian region will be much enhanced if there is a process of economic integration. Except if considerations of political and economic nationalism for time being requires a different policy.



# ASEAN Private Sector on the Move

J. PANGLAYKIM

The purpose of this paper will be to discuss some of dynamic aspects of the ASEAN private sector. I will depart from the normal economic analysis inasmuch as no extensive statistical figures will be presented. So this is more of a qualitative approach, analyzing the various possible development in the ASEAN private sector. My point of departure is that at present the ASEAN private sector has developed into a dynamic one and has proven to the world that the business, industrial, and banking sectors have developed their capabilities and capacities in order to cope with the increasingly competitive world.

It is not without reason that the international business world has classified the ASEAN countries as a growth area. Part of this growth area has been initiated by many of the actors in the private sector. If we observe the development of the ASEAN countries, the credit standing these countries have developed in the international banking business world is a crucial indicator of trust of the international financial community. It also indicates their political stability which is seen as important for the implementation of the various economic and development plans. In one of the seminars in Kuala Lumpur, I remember a Philippine participant making the following observation. He was asking the audience of American and other Western bankers whether they could confidently predict who would be the next president of the United States, the chancellor of West Germany or the next prime-minister of England, Holland or Belgium. He then said that in the coming five years he could confidently predict who would be in charge of the leadership of the ASEAN countries.

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The ASEAN private sector seems to have been able to cash in on, or to translate, the macro economic strength which has been developed during the last 10 years into a macro or operational business strength. In general, depending upon the role played by the various governments, the private sector in the ASEAN countries has been able to develop some degree of maturity.

Many economic analysts appear to have focused their attention to the percentage of intra-ASEAN trade and to comparing those statistics with the developed countries. They also seem to indicate the low intra-ASEAN trade is due to the ASEAN economic structures which are more or less the same except for Singapore. It will most probably be useful and beneficial if we look beyond the low percentage of the intra-ASEAN trade figures and consider the dynamism of the ASEAN private sector which has gained momentum in its search for a respectable place in the international competitive business community.

#### ASEAN PRIVATE SECTOR'S INCREASED CAPABILITY

A number of ASEAN entrepreneurs, be they from Thailand, Singapore, Malaysia, the Philippines (including known failures and mismanagement cases), and Indonesia have established business and industrial enterprises which have given us indications that they are developing what I call "Third World Multinational Corporation." Sime Derby Group, Bangkok Bank Group, Bank Bumiputra Group, United Overseas Bank Group, Development Bank of Singapore, Singapore Airlines, Garuda, Pertamina, Waringin, Astra Group, National Bank of Philippines, Suriano Group, etc. have developed their capabilities during the last 10 years and have acquired respectable positions in the world of international business.

The above development of the ASEAN business enterprises has brought about increased capability to cooperate with one another. And this process will gain momentum in the years to come.

#### CROSS INVESTMENT

A number of projects among ASEAN countries have been established in terms of cross investments. Some of them are food projects between Singapore and Thailand, between Indonesia and Singapore, between Singapore and Malaysia, and also between Thailand and Indonesia. They have all been, or are being, organized and initiated by private businessmen and industrialists.



## TRADE SECTOR

In terms of percentage, intra-ASEAN trade is always seen as small compared to trade with the developed countries. Because of their economic structure, trade with the developed countries will be higher. However, since the ASEAN countries will be aiming at accelerating the industrialization process and developing their capabilities in exporting industrial raw materials and, at a later stage, manufacturing products, their pattern of trade will undergo some fundamental changes. The ASEAN countries, probably with the exception of Singapore, will become suppliers of industrial raw materials to one another and to other industrial countries. This dynamic process will be watched carefully by the private sector, because it will be the implementator of the changing pattern of trade. This sector is a dynamic sector, and we are confident that in the years to come, as the acceleration of the ASEAN industrialization process gains momentum, the trade sector will also contribute to the increase of intra-ASEAN trade. As part of this dynamic process, the ASEAN-CCI has come up with a proposal to establish an ASEAN General Trading Firm, similar in spirit as the ASEAN Finance Corporation which was established in 1981.

The ASEAN General Trading Firm might be one of the vehicles to assist the increase in intra-ASEAN trade, and according to me it might be logical to include the ASEAN Finance Corporation as one of the shareholders. The ASEAN Finance Corporation's aim is also to find ways and means to increase intra-ASEAN trade. This brings us to discuss what has been developing in the service industry.

## SERVICE INDUSTRY

*Banking Sector* - As mentioned earlier, the ASEAN private banking industry has managed to establish the ASEAN Finance Corporation. Practically all ASEAN banks (which include some of the foreign banks operating in the ASEAN countries) are shareholders of the ASEAN Finance Corporation. This corporation has been established not only with the full support of the ASEAN banking community but also of the ASEAN Monetary Authorities. It has, as a start, a paid-up capital of US\$ 100 million and has its head-quarters in Singapore.

Cooperation among the ASEAN private banks, be they correspondents, stationing desk officers, syndication managers or floating loan providers, has been on the increase, especially with the existence of the ASEAN Banking Council which meets regularly, so that the ASEAN bankers as well as their

managers know one another personally. These personal contacts, which will increase in the years to come, are also expanded to the executive level and will be one of the important ingredients towards a more intensive cooperation in the ASEAN banking sector. From that cooperation other types of ASEAN business will definitely develop.

*Tourist Industry* - Intra-ASEAN tourism is on the increase. More and more people from ASEAN visit one another. The existence of ASEAN carriers like Philippines Airlines, Singapore Airlines, Garuda Indonesian Airways, Malaysian Airlines System, and Thai International have contributed to the increase of ASEAN tourism. The number of travel agencies which have developed a certain degree of cooperation, indicates that there is an increase in business cooperation, not to mention other types of business like the hotel, restaurant, and transportation businesses which these travel agencies have also developed. The impact of intra-ASEAN tourism will be there for years, because not only have contacts been established at the business level but also at the personal level.

*Other Sectors of the Service Industry* - Other types of cooperation in the service industry are also on the increase. These include the accountancy and consultancy services.

## SUMMARY

During the last 10 years, the ASEAN private sector has developed its capability in the business, industry, and banking sectors. It has managed to establish organizations which can be classified as Third World Multinational Corporations whose presence in the ASEAN business world as well as in the international business arena has gained respectability.

ASEAN as a growth area and as an area of stability has enjoyed a high credit standing in the international money and capital markets. Many of the ASEAN businessmen and industrialists have managed to translate this macro strength into a national/company asset. This has contributed to the widening up of opportunities for the ASEAN private sector.

This dynamism of the ASEAN private sector may be seen from the increased intra-ASEAN contacts in both service industry and trade sector. Cross investments among ASEAN countries will also be increasing. The success of the ASEAN countries in accelerating their industrialization process will contribute to the changing trade and investment patterns which will, in turn, contribute to the rise in intra-ASEAN trade.



The banking community has established an ASEAN Finance Corporation, in which all the ASEAN bankers are shareholders and which is an important ASEAN vehicle capable of generating other ASEAN cooperative activities. Having seen the establishment of the ASEAN Finance Corporation, the ASEAN-CCI is now in the process of proposing the establishment of an ASEAN General Trading Firm. Should this become a reality, it would be wise to invite the ASEAN Finance Corporation to become one of its shareholders.

The intra-ASEAN tourists industry is also on the rise. ASEAN carriers and travel agencies, which cooperate with one another, have increased the stream of ASEAN tourists. These contacts between individuals and cultures will be beneficial to future cooperation.

Other sectors of the service industry like accountancy, consultancy, etc. have also been active in promoting cooperation among the professions.

It is my belief that as the private sector gains momentum and manages to translate the macro strength into an operational strength and asset, intra-ASEAN cooperation in all sectors of the private industry will also rise. We can already see a combined effort and cooperation among ASEAN business leaders to enter the industrial world markets. This indicates that they are looking for further cooperation and this strength will, in turn, bring about new types of business bank to the ASEAN countries. It has to be a two-way traffic and not only a one-way traffic to the developed countries.

We should watch the impact of personal contact at the level of ASEAN decisions makers on the private business level which has been developing during the last five to ten years. This will also have an impact on the momentum created by that sector and in the years to come will result in speeding up other type of joint venture operations.

# **New Directions of Indonesia's Investment Policies: Opportunities for Japan**

SUHARTOYO

## **GLOBAL ECONOMIC REALITIES**

The world economy during much of the past 30 years was increasingly marked by the growing interdependence -- through trade and investments. Technological breakthroughs are one of the underlying causes, providing faster communication and transportation facilities, new production technologies, etc., thereby creating interrelationships between regions previously non-existing. Another factor contributing towards this is the emergence of the developing countries, especially the so-called newly industrialized countries (NICs), into the international trade arena. Certain previous colonial relationship must of political necessity be transformed into more equal relationship between two independent entities, but through trading activities related in an interdependent fashion.

The emergence of sovereign developing nations has also brought with it the necessity for structural adjustments. Certain products previously manufactured in developed countries are increasingly taken up by developing countries. This shift was brought about due to the prevailing comparative advantages, such as, for instance, low labour wages and natural resource endowments. The industrialization drives of the developing countries in a way also expounded by development theories in the developed countries themselves, based on the desire of the developing countries to alleviate their underdeveloped status, contributes to the gradual but ever pressing need for global structural adjustments. The North-South dialogue, the New International Economic



Order, are just examples of the issues, albeit with slight political overtones, that have structural adjustments at its core.

The growing interdependent relations, as recent events have strongly brought to the fore, can transmit adversities as well as benefits from country to country. Inflationary pressures, stagnating economic growth, and other economic woes in the industrialized countries are transmitted to the developing countries through depressed export earnings. This in turn contributes towards severe liquidity problems, curtailment of debt servicing abilities and imports to sustain further development. Unless checked, this chain of events might possibly grow into a spiraling effect which will worsen global conditions, with everybody losing from it.

The entrance of sovereign developing countries into the global economy is a historical event that could not possibly be turned back. To face the ensuing problem of structural adjustment squarely and accept it as realities of life seems to be the most prudent way of coping with it. The resurgence of certain protectionist policies in the industrialized and developed countries are certainly cause for concern since it might aggravate instead of resolve the problem.

On the other hand, certain developed countries seem to adapt well with the changing global economic realities, and wisely implemented corresponding policies with acceptance of the new realities firmly in mind. An outstanding example would in this case be Japan. In the 1960s, Japan had complementary relations with the NICs, supplying each other effectively with what the other wanted. At first, Japan exported machines needed for the NICs industrialization, which in turn helped Japan's exports. Japanese imports of textile goods and other labour-intensive products at low prices from the NICs, completes the complementary relation. The NICs mentioned here are Taiwan, South Korea, Hong Kong and Singapore.

Japan made also direct investments in these countries, thereby gaining access to cheap labour to manufacture goods and helping the exports of the host countries. Exports included semi finished goods to be final-assembled in Japan. These direct investments helped the NICs, since it was in effect a transfer of capital, production and management technologies which the NICs really needed.

But as the fruits of development efforts were felt in the NICs in the 1970s bringing with it a certain raising of living standards, so did wage rates rise. The comparative advantage of cheap labour in the NICs slowly eroded. The NICs were forced to shift their industrial structures to more capital -- and technology -- intensive structures, and labour intensive industries were taken up by other developing countries with lower labour, especially in the ASEAN region.

As this structural adjustment process progresses, the NICs industrial structure increasingly resembled Japan's. Especially when the NICs achieved development of their heavy machinery, chemical and high value-added manufacturing industries such as steel, petrochemicals, shipbuilding, etc., which were really the pillars of Japan's economy at that time. Complementary relations were gradually turning into competitive relations.

But here we observe the remarkable adaptability of Japan's economy, an admirable trait that could well be taken as example by other industrialized nations. Realizing that it would be futile to fight the onwards march of the industrialization progress of developing countries, Japan reacted positively. She determinedly adopted a policy with the "joho-ka" or "information" as key to the future. Japan is beginning to enter its post industrial stage of development, and aiming for establishing a technology oriented society based on the information industry, which in turn is based on advanced electronics and computer technologies.

What we have observed then are structural adjustments, in both developing and developed countries, in a positive sense. Striving for operational and dynamic complementary relations should be the guiding motivation in coping with the changing and uncertain global economic conditions so pervasive presently and in the near future.

## INDONESIA'S OUTLOOK

As mentioned earlier, the emergence of new clusters of buoyant economic activities in new regions, notably Japan and the Pacific rim of South East Asia, has indeed changed the international economy over the past 30 years. Indonesia is a new entrant into this category, since according to World Bank reports, she has just been elevated into the middle income status of developing countries. Our role within the ASEAN community is quite considerable, although considered from a certain viewpoint, the last industrialized member of that community.

Remarkable progress has been made by Indonesia during the very recent years. During the 1970-1980 period, Indonesia's Gross Domestic Product has achieved an average real growth rate of more than 7 percent. Indonesia is also able to successfully contain inflation, as can be observed from the inflation rate figures of around 22 percent, 16 percent and 7 percent for 1979, 1980 and 1981 respectively. This is rather remarkable, considering the hectic development activities on all fronts undertaken simultaneously. Official foreign



reserves stood at around US\$ 4.6 billion, US\$ 7.3 billion and over US\$ 6 billion at the end of fiscal year 1979/1980, 1980/1981 and 1981/1982 respectively. In addition, the country's credit standing in the international finance community is quite good.

These impressive results can all be traced back to the fact that since 1969 Indonesia, under the New Order leadership of President Soeharto, really started to implement a strategy for growth through the systematic planning and launching of successive Five Year Development Plans. It reflects the determination to infuse pragmatic economic policies and prudent fiscal and monetary policies into carefully laid out development objectives and strategies in her national development efforts. Indonesia must always realistically assess her strength as well as shortcomings, taking into account international developments, for planning ahead. These have been the underlying reasons for the country's objective of trying to transform her vast natural resource endowments into economic realities. The agricultural sector, with its various sub-sectors such as farm food crops, farm non-food crops, livestock, fisheries, forestry, will be a key element, since it is one sector where Indonesia's vast natural resource endowments reside. It is a fact that Indonesia's culture, society and heritage are basically agrarian oriented in her drive towards industrialization. Observations during the past 30 years have shown that development of the agricultural sector remains critical, because it may determine the speed at which a country can industrialize. Success in agriculture strengthens and help sustain the momentum of economic growth.

Indeed, one of the factors contributing to the recent impressive performance of Indonesia was the successful rice production of the agriculture sector, a very important stabilizing element in her economy. Since more than half of her labour force is still employed in the agriculture sector, its development will in turn boost rural incomes and thereby increase their buying power. This would then constitute a vast domestic market potential for other economic sectors to base their growth upon.

That other agriculture produce are also important stabilizing elements can be observed from the fact that the Indonesian Government has established the state logistical body, *Bulog*, specifically entrusted with regulating the price of rice, wheat, flour, soybeans, corn, meat, eggs and other commodities through the maintenance of huge buffer stocks and open market intervention.

Rubber, oil palm, coconut, cocoa, tea, coffee and sugar crop developments are strongly desired by Indonesia. So are developments in the fishing sub-sector, such as, for instance, *tuna/skipjack* fishing activities, since Indonesia's marine resources are only beginning to be tapped.

Indonesia's timber resources are quite well known, and within the ASEAN region, she is probably the only country left with real potentials that may be promising for a long time to come if properly managed.

At this juncture it might be pertinent to understand one of the strategies adopted in the development endeavours, again based on the realistic assessment of the perceived shortcomings in the past. Establishing and strengthening the interlinkages between all economic sectors, especially between the primary sector and the manufacturing industries of the secondary sector is a strategy Indonesia determinedly pursues. Consequently, she aims at increasing domestic processing of her natural resources into more higher value-added commodities before they are exported. This explains the recently implemented policy of curtailing log exports, and replacing them by establishing wood-processing industries that can then export sawn timber, plywood products, etc. Deepening the economic structure so that it will increasingly be rooted in the country's resource endowment, which is one of her comparative advantages, is the aim.

The other primary sector which contains vast natural resources endowment is the mining sector. The same strategy as mentioned above is applied such as the establishment of the olefin and aromatics centers, methanol, carbon black projects, which are based upon further processing of oil and gas. The successful establishment of the fertilizer, cement and petrochemical manufacturing industries are based on the oil and gas resources, whether utilized as energy or as feedstocks. Expansion of Indonesia's oil refinery capacities and continued oil and gas exploration activities indicates that she has not fully exploited and utilized these resources yet. The current resurgence of coal mining activities is a response to the changing international energy outlook. The recent international oil crisis and the subsequent drive for alternative energy resources, has made coal again a viable proposition for countries that are endowed with those resources, which includes Indonesia.

Geothermal exploration activities are also in the upswing to increase its utilization as source for electrical power generation. Within this context, the huge Asahan project was initially an undertaking to tap the hydropower potentials of the region. The decisive factor in the nickel matte production by INCO in Sulawesi was the availability of hydropower potentials for the electrical power requirements.

Indonesia is fully aware that resource and energy-based undertakings are very capital and high technology intensive, and without previous experience impossible to successfully implement them on her own. This is then where cooperation with the more developed countries come into the picture, including foreign investment schemes. Foreign investments have played an im-



portant role in Indonesia's development, and will still be considered an important complementary ingredient on her coming development endeavours.

It should also be clearly understood that a lot has occurred since the promulgation of the Foreign Investment Law in 1967 by the Indonesian Government. Gone are the relatively easy times, when to prevent the economy from stagnating in the 1960s, Indonesia welcomes almost any kind of foreign investment. Investments in the quick-yielding consumer product manufacturing industries were accepted, sometimes accorded high tariff wall protections. The manufacturing industries have come a long way in its development, and must increasingly play a dominant role in the country's economy. Other sectors of the economy have also developed, and therefore Indonesia's needs and aspirations are changing accordingly. Indonesia is now more selective in accepting foreign investments. They should be in line with development strategies adopted to attain her national development objectives. Recent analysis also corroborates that the absolute amount of investment makes a less important contribution to economic growth than the way investment is allocated and used.

This changing orientation was unfortunately often misunderstood and perceived as if Indonesia is gradually closing herself to foreign investments. As was indicated earlier, due to the fact that she is implementing a lot of resource based and energy-intensive undertakings which are very upstream and basic in nature, bigger amount of investments are actually called for, including foreign investments. It is the orientation of economic activities in which foreign investments are sought-after that has been changing, from a basically downstream orientation, towards a more upstream one.

The manufacturing industries will of course be crucial in Indonesia's industrialization drive, especially in the efforts to achieve a more balanced economy in which the agriculture and manufacturing sectors increasingly complement each other. This is an important aspect to keep in mind, in that development of the manufacturing sector should always be deeply rooted in the natural resource endowments of the agriculture as well as the mining sector. This way, industrialization efforts could be sustained by a deep and wide base from which to further develop.

There is an important segment of the manufacturing sector which merit special attention, and that being the metal and engineering industries. It is this subsector that produces the all important capital goods as well as intermediate inputs so important for activities in other sectors of the economy, including the manufacturing sector itself. This strategy has led to establishment of the Krakatau Steel complex, the Nurtanio aircraft factory, the automotive industries and related component manufacturing industries, the diesel engine

manufacturing plants, etc. In the more upstream sense, plans to establish the cold rolling mill, aluminium rod, copper cathode, seamless pipe manufacturing plants just to name a few, as well as foundry and forging centers, are all aimed at deepening and strengthening the metal and engineering industries. This strategy has in fact already been laid down in Indonesia's Broad Outlines of State Policy (or more known by the Indonesian acronym of GBHN), which states that during the Fourth-Five Year Development Plan commencing around 1984/1985, Indonesia should have the capability to produce machineries required for her light as well as heavy industries.

Here again, initiatives and active participation of the private sector, foreign as well as domestic, in developing the metal and engineering industries is highly sought-after and encouraged by the Indonesian Government. Special incentives and facilities are offered for investments in these subsector under prevailing investment laws and regulations.

Indonesia has a large population of more than 145 million. If one looks at it, as a problem of mouths to feed and providing employment opportunity, then it can be considered a social burden to the Government. But there might be another way of looking at it, namely as a source of productive manpower and vast domestic market potentials. To realize as best as possible the latter outlook, education has been a key program and accordingly accorded the largest portion in Indonesia's fiscal year 1982/1983 budget. Raising the living standards of the population at large has been implemented through various policies and programs, a key element being equitable distribution of opportunities. In our earlier mentioned Broad Outlines of State Policy, Indonesia's huge population, should be considered as one of our national assets.

One way of coping with this has been the recognition that the large informal sector in the economy should be nursed and cultivated properly, and ways and means discovered to foster complementary relations between this sector and the so-called modern business sector. Development of cooperative units into viable business entities, increasingly able to stand on their own commercial wise, is in line with the context of productively marshalling the informal sector into the mainstream of economic activities. The Indonesian Government has stipulated that certain domestic investment activities shall be granted facilities and incentives under the prevailing Domestic Investment Law Scheme only if they are undertaken by cooperative units. Likewise, certain foreign investment activities are granted the full range of facilities and incentives available only if they establish permanent business relationship with cooperative units in their operations.

The manufacturing sector would be a good example for observing the existence of the informal sector, since small-scale and household/handicraft



manufacturing establishment are quite extensive. Around four-fifths of the total employment in the manufacturing sector is absorbed by the small-scale and household/handicraft establishments. The establishment in 1978 of a Directorate General of Small-scale Industries within the Ministry of Industry reflects the importance attached to developing this segment of the manufacturing sector. Although this segment is usually associated with "traditional" undertakings such as, for instance, food, beverage, tobacco, wood products, furniture, leather, manufacturing activities, this need not always be so. Recent developments show that certain small-scale manufacturing activities in the engineering industries have burgeoned into quite solidly established enterprises also employing increasingly modern production technologies. The Indonesian Government is fostering workable relations between the formal and informal sectors, based on sound commercial motives such as subcontracting arrangements.

Here again, policies are implemented in which certain business activities are reserved exclusively for the small-scale and household/handicraft establishment, under the so-called reservation scheme. Certain investment facilities and incentives are granted only if subcontracting arrangement are implemented with these establishments, whether organized in cooperative units or not.

In line with the focus on the metal and engineering industries in the next Fourth Five Year Development Plan and recognition that certain engineering industries are particularly suited for small-scale establishment based on specialized skills, knowhow and technologies, development of these industries becomes really important to Indonesia. This would not only alleviate the employment problem, but would also provide the infrastructure "grass roots" domestic capabilities as the foundation for further industrialization efforts.

Indonesia's geographical make up compels her to consciously distribute development activities as evenly and as much as possible into even the remotest regions of the country. This is quite discernible in the additional investment incentives and facilities granted to undertakings that are conducive to developing remote regions. Minimal incentives are granted to undertakings in the already fairly developed Java island; in certain cases, new investment undertakings are discouraged or even prohibited, except under very special conditions.

There is a perceptible change in the development orientation from a basically inward-looking and import-substitution orientation exclusively catering to domestic demands, to a gradual and increasingly export orientation. The country's huge domestic market is still a very important factor, but the added export orientation emphasis would provide a clearly needed motivation for her

manufacturing establishments to infuse increasing efficiencies in their production. Coupled with the earlier mentioned drive towards establishing more upstream and basic projects rooted in Indonesia's resource endowments, this strategy strives to materializing comparative advantages into her international trade. The country would like to balance out her still predominantly primary commodities export orientation into one in which industrial commodities, especially manufactured goods, would increasingly contribute its share. These new orientations could for example be observed through the gradual dismantling of certain tariff structures considered too high, and not conducive to encouraging competitiveness in domestic production. Investment facilities and incentives are frequently also more favourably biased towards undertakings that are basically export-oriented.

It is a historical fact that countries that have followed an export-led economic development strategy right from the start, either compelled due to small domestic market and/or natural resource endowment considerations or by deliberate choice, have fared better and industrialized faster in the long run. Another fact is that primary commodities seems to be more adversely affected by international market downturns, than manufactured goods.

This new export-orientation has been underlined by the export package regulations issued in January 1982 which aim at encouraging Indonesia's non-oil/non-gas exports, and thereby also reducing her overdependence on oil and gas as her major export commodity. Part of the export package regulations is the counterpurchase arrangement that has caused a stir in certain business communities. The counterpurchase arrangement applies to imports of manufactured goods and commodities in excess of Rp 500 million (US\$ 760,000) by Government departments, non-departments agencies and stated-owned companies. Foreign suppliers winning government-funded import procurement contracts must export Indonesian non-oil and non-gas goods equivalent to the FOB value of equipment and materials they bring into Indonesia. This regulation does not apply to private-sector procurements nor to foreign investment companies operating in Indonesia. It could therefore be considered as an indirect inducement for encouraging joint-venture investment schemes under Indonesia's Foreign Investment Law.

It was rather surprising that this regulation when put into effect by Indonesia did elicit the rather apprehensive reaction. This kind of trading arrangements constitute 25 to 30 percent of present world trade, implemented even between developed countries. Although they might be called different names such as buyback, clearing agreement, offset, "investment performance," all come down to basically the same thing. Surprisingly some major corporations, notably General Electric, General Motors, McDonnald Douglas



Corporation to name a few, have all adapted themselves by setting up special organizations to specifically handle these kind of arrangements. However one may dislike it, it has become a fact of international trade.

## INDONESIAN PERSPECTIVE OF JAPAN

Japan's role in Indonesia's economy is considerable, in terms of trade and investment. Japan is a major trading partner of Indonesia, since in 1981 more than 47 percent of the country's total exports were to Japan, while imports from Japan amounted to 30 percent of total Indonesian imports. The trade balance was in Indonesia's favour amounting to US\$ 2.4 billion, US\$ 5 billion, US\$ 7.4 billion and US\$ 6.5 billion in 1978, 1979, 1980 and 1981 respectively. Upon closer scrutiny of the import and export structures, this balance is due to the exports of oil and gas and other primary commodities. In the so-called industrial commodity category, the trade balance is very much in Japan's favour. In fact, in 1980 for example, more than 48 percent of Indonesian total imports of manufactured goods and machineries and transport equipment in the industrial commodity category came from Japan. Almost 45 percent of Indonesian total imports of industrial commodities was supplied by Japan. In view of the industrialization efforts and the non-oil and non-gas export drive earlier mentioned, Indonesia certainly would like to achieve a more balanced trade relations with Japan. This would be through an envisaged gradual increase of Indonesian exports of industrial commodities in the future.

In the investment fields, Japan is again dominant. Up to March 1982, approved intended investments (outside oil and gas, banking and leasing) by the Indonesian Government originating from Japan businesses amounted to US\$ 3,248.8 million, or 35 percent of total approved intended investments under the Foreign Investment Law scheme. We certainly do appreciate the fact that Japan was one of the first major countries to immediately take up the investment opportunities provided by Indonesia when the Foreign Investment Law was promulgated in 1967. This was indeed a farsighted step taken by Japan.

To cite specific examples, one may note that all three current operating synthetic fibre manufacturing plants are Japanese joint-venture enterprises. The automotive industry is an economic activity where Japan is very pronounced in its dominance. More than 92 percent of total automotive production in 1980 and 89 percent in 1981 were Japanese made. More than 90 percent of commercial cars assembled in Indonesia in 1979, 1980 and 1981 were Japanese made; more than 70 percent of passenger cars for the same period were likewise Japanese made.

Table 1

INDONESIAN EXPORT AND IMPORT RELATIONS WITH JAPAN  
1978, 1979, 1980 (million US\$)

SITC Description Code	Exports						Imports						Balance (Exports-Imports)		
	1978			1979			1978			1979			1978	1979	1980
	Value	Distribution (percent)		Value	Distribution (percent)		Value	Distribution (percent)		Value	Distribution (percent)				
<i>Primary Commodities</i>	4,458.9	97.7		7,076.1	93.6		87.4	3.9		110.4	5.7		4,251.9	6,965.7	10,483.6
0 Food and Live Animals	196.1	4.2		259.5	3.6		38.8	1.7		54.9	2.6		37.7	204.6	164.0
1 Beverage and Tobacco	0.8	0.0		1.6	0.0		0.4	0.2		0.2	0.0		0.4	1.4	0.5
2 Crude Materials, inédible	586.6	12.8		1,110.9	15.4		35.8	1.7		43.1	2.5		550.8	1,067.8	1,298.6
3 Fuels, Lubricants, etc.	3,670.5	80.4		5,700.5	79.2		10.3	0.5		9.0	0.4		3,660.2	5,691.5	9,016.5
4 Animals & Vegetable Oil and Fats	4.9	0.3		3.6	0.4		2.1	0.0		3.2	0.2		2.8	0.4	4.5
<i>Industrial Commodities</i>	1,06.6	2.3		115.8	1.4		1,929.0	96.1		1,993.0	94.3		-1,822.6	1,877.2	-3,104.4
5 Chemicals	4.3	0.1		4.8	0.0		258.6	12.3		342.9	15.8		254.3	-338.1	-348.3
6 Manufactured Goods	95.4	2.0		104.9	1.4		518.0	25.6		610.7	29.2		-422.6	-505.8	-834.4
7 Machineries Transport Equipment	1.9	0.0		1.3	0.0		1,036.6	48.0		969.7	46.0		-1,034.7	-968.4	-1,802.7
8/9 Others	4.8	0.2		4.8	0.0		115.8	10.2		69.7	3.3		-111.0	64.9	-99.0
Total	4,565.5	100.0		7,191.9	100.0		2,016.4	100.0		2,103.4	100.0		2,429.3	5,083.5	-7,379.4
Ratio of export/imports to total Indonesian exports/ Imports (percentage)	39.2			46.1			32.3			30.6					32.8

Source: Tabulated from BPS publications.

Note: 1981 figures: exports US\$ 10,545.9 million (47.4 percent of total Indonesian exports);  
imports US\$ 3,989.0 million (30.0 percent of total Indonesian imports);  
balance US\$ 6,556.9 million



In the automotive component manufacturing field, Japan is also highly visible in such fields as storage battery, shock absorbers etc.; in the sparkplug manufacturing, there are only three enterprises active, of which two make Japanese brand of sparkplugs (NGK and Nippondenso).

In the motorcycle business, like in most countries all over the world, almost complete dominance by Japanese products is very observable. It is nowadays a rarity to see non-Japanese motorcycles in Indonesian traffic.

Indonesia is currently trying to strengthen and deepen the automotive industries structure by going upstream. We would like to see certain types of automotive engines, petrol as well as diesel, be produced locally within the next three to four years. We are glad to note that Japanese companies have reacted positively to this, and the Investment Coordinating Board has therefore issued provisional approvals for the manufacture of Toyota, Mitsubishi, Daihatsu, Hino, Suzuki and Isuzu engines, beside some non-Japanese makes.

In view of Indonesia's current drive to widen the backward and forward linkages as well as deepen the production processes towards the material base of the commodities in question, especially where the resource endowments support it, Indonesia is looking forward to further mutually reinforcing and beneficial cooperations with Japanese enterprises. It would seem a logical sequence, having established a substantial share of the market, to further consolidate it by gradually and increasingly manufacturing them in Indonesia.

This would also be more in line with Japan's inclination to shift towards an increasingly tertiary sector orientation in the future, thereby phasing out certain manufacturing activities. These could then be taken up by countries that have more potential comparative advantages to undertake them, especially resource and energy endowed countries.

Indonesia is in the process of changing her basically agrarian orientation into a more balanced economy. She is just on the threshold of industrializing herself. By the very nature of her comparative advantages, this would focus heavily on developing the primary and secondary sectors of the economy. The manufacturing industries of the secondary sector has just started to become a fledgling factor in the country's economy.

This is then where complementary relations could well become a very viable foundation for Indonesia's relations in the future. Offshore manufacturing arrangements, especially products of the resource-based and energy-intensive kind, could well increasingly be concentrated in Indonesia, with the help of Japanese technology and expertise. The manufactured output could

Table 2

APPROVED FOREIGN INVESTMENTS BY COUNTRIES OF ORIGIN<sup>1</sup>  
(in million of US\$)

Country of Origin	1967 up to 1979 <sup>2</sup>	1980 up to March 1982	1967 up to March 1982
<i>America</i>	838.0	70.9	908.9
- USA	706.5	52.0	758.5
- Canada	85.9	18.9	104.8
- Panama	34.2	-	34.2
- Bahamas	11.4	-	11.4
<i>Europe</i>	945.8	290.7	1,236.5
- Belgium	87.2	-	87.2
- Denmark	33.7	-	33.7
- France	28.9	-	28.9
- Italy	6.3	-	6.3
- Netherlands	233.1	31.6	264.7
- Norway	9.4	-	9.4
- West Germany	212.8	-	212.8
- U.K.	168.1	2.3	170.4
- Switzerland	151.3	256.8	408.1
- Poland	3.0	-	3.0
- Lichtenstein	2.3	-	2.3
- Netherlands Antillen	9.7	-	9.7
<i>Asia</i>	4,748.7	169.4	4,918.1
- Japan	3,172.9	75.9	3,248.8
- South Korea	64.2	4.3	68.5
- Hong Kong	818.9	16.0	834.9
- Republic of China	89.2	2.0	91.2
- Singapore	119.3	63.2	182.5
- Malaysia	55.3	-	55.3
- Brunai	15.8	-	15.8
- Thailand	25.4	-	25.4
- Philippines	311.4	-	311.4
- India	76.3	8.0	84.3
<i>Australia</i>	224.0	1.8	225.8
- Australia	223.6	1.8	225.4
- New Zealand	0.4	-	0.4
<i>Various Countries</i>	1,436.5	568.4	2,004.9
<b>Total</b>	<b>8,193.0</b>	<b>1,101.2</b>	<b>9,294.2</b>

*Note:* <sup>1</sup> Excluding oil, insurance and banking sectors.

<sup>2</sup> Minus liquidated foreign investments and those which were transferred to domestic investment plus additional capital.

*Source:* Investment Coordinating Board.



not only supply Indonesia's vast domestic market, but also even Japan's own need and the international market as well. This kind of arrangement might offer certain distinct advantages; first, nearness of the manufacturing establishments to the sources of raw material and energy. Second, possibility to operate on large scale economies when considering Indonesia's domestic market and Japan's own market in addition to exports to other countries as well.

Japan is no stranger to Indonesian markets, and know its peculiarities well, since she has a large share of Indonesia's domestic market already for quite a while. The international market is no strange territory either for Japan due to the experiences gathered by her wellknown and diversified sogo shosha's or trading companies.

Here again, in connection with Indonesia's counterpurchase arrangement recently effected, she perceives no difficulties to Japan for coping and adapting to it, since the sogo shosha have at their disposal vast network of international trading channels.

It remains for Indonesia and Japan to be farsighted enough to acknowledge the potentials and possibilities in the current new directions both taken by Indonesia as well as Japan, one entering its industrialization period and the other leaving it to enter the post-industrial era. Complementarities could and should be discovered, fostered and strengthened in order to realize potentials that could only benefit both Japan and Indonesia in the long run.

# Developments in the Indonesian and Southeast Asian Gas Industry

M.A. WARGA DALEM

## INTRODUCTION

Petroleum development in the Association of Southeast Asian Nations (ASEAN) is as varied as the peoples in the countries that make up the region. Indonesia and Malaysia are net oil exporters, while the Philippines, Singapore and Thailand are net importers.

The region as a whole is marked by economic and political stability. Although the petroleum industry does not view the petroleum prospects in Southeast Asia as being as high as those in Latin America or Africa, overall action in Southeast Asia is increasing, in large part as a result of relaxed restrictions in some of the more highly prospective countries. Several of the 160 known giant gas fields in the world (being fields with more than 3 trillion cubic feet of gas) are in Southeast Asia.

Meyerhoff (1979), a well known gas consultant, made an estimate of world reserves of free gas, either in gas-caps or alone, and produced a figure of 6,950 trillion cubic feet of ultimate world gas recovery, with 99 trillion cubic feet and 98.3 trillion cubic feet respectively as figures for Indonesia and Malaysia-Brunei. Of these two figures, 75 trillion cubic feet each should be considered as "potential," with the rest being "proved and probable." Figures announced by Indonesia and Malaysia, however, indicate that the "proved and probable" figures as published by Meyerhoff are on the low side.



In the past, the search for gas was focused mainly on "conventional traps" such as anticlines, salt domes and limestone formations. In recent years, however, the number of these conventional traps which are unexplored has declined. Therefore, the industry, including the national oil companies in Southeast Asia, is now beginning to take a hard look at the potential of what were considered previously as being secondary exploration objectives.

Four "new frontiers" of exploration now being seriously studied are hydrocarbon potentials in:

- volcanic reservoirs
- reef limestone reservoirs
- non-reefal stratigraphic traps and
- pre-tertiary rocks

It is expected that quantitatively more energy will be discovered as natural gas than oil, based on current discovery trends.

When we consider how rapidly small quantities form from any decomposing biologic material, it is evident that natural gas was formed in enormous quantities in the earth's crust. Natural gas - methane - is the earth's most stable organic compound and is therefore present in the deepest sedimentary basins, far below the destruction level of oil. Natural gas is trapped in a wide range of reservoirs of differing quality and will migrate through rock of far less permeability and porosity than will oil. Thus, relative to crude oil, the whole world is gas prone. On average, 4 Mcf of gas have been found for every barrel of oil discovered to date and this ratio may very well increase in the future with more exploration around the world. Needless to say, for an adequate pace of new gas development to occur, an encouraging economic environment must be maintained, which should include:

- an understanding that gas price affects the pace of exploration;
- recognition of a reasonable rate of return on investment by the gas industry for exploration and development of gas;
- overall economic and political stability of the host country.

A price tag set by the Government and paid by the consumers that reflects the true gas value with regard to oil will convert the potential gas reserves into the proved and probable category.

## INDONESIA

It is Tertiary sedimentary basins which form the stratigraphical environment for hydrocarbons in Indonesia. Some 40 sedimentary "basins" (arbi-

trarily chosen by following the 1,000 metres isopach of the sedimentary fill) have been identified. Almost all these basins cover both onshore and offshore areas. Of these 40 basins, some 12 basins presently produce oil and gas. The remaining basins are either semi-intensively explored or have not been explored at all. According to the estimate of the Association of Indonesian Geologists 45.6 BOE of gas are yet to be discovered, two-thirds of which are offshore.

The proved reserves of gas at the moment are 34.4 trillion cubic feet, while another 6.0 trillion cubic feet have been identified as potential for conversion into proved reserves. These reserves exclude the West Natuna Basin in the South China Sea, where another 97.8 trillion cubic feet of gas have been identified as having much potential. This basin, although it may contain up to 70 percent of carbon dioxide, is expected to be the biggest gas basin in Indonesia. When one looks at the resources of hydrocarbons in Indonesia, i.e. the total amount of hydrocarbons recoverable or available economically (discovered or yet to be discovered) one can say that Indonesia is fortunate to be endowed with the different varieties and large quantities of natural resources.

The Association of Indonesian Geologists held its 1980 Annual Convention in June, 1980, and published the following estimate of gas resources yet to be discovered in the 40 basins so far identified in Indonesia:

onshore	-	15.4 billion BOE
shallow offshore	-	13.0 billion BOE
deep offshore	-	17.2 billion BOE

totalling 45.6 billion BOE or 264.4 trillion cubic feet (Nayoan, 1980). This agreed more or less with the estimates made by Gage & Wing (1980). This development of new energy resources such as gas will involve huge capital outlays and tremendous planning problems. Although the focus of this paper is the developments in the Indonesian and Southeast Asian gas industry, much concern has been shown about the development of human resources, especially in Indonesia.

From the beginning the Government c.q. Pertamina has insisted that Indonesians staff the oil and gas industry at all levels and that those expatriates necessary to the early years of operation must systematically be replaced by Indonesians. Pertamina, for example, has begun a pioneering program of co-operation between the University of Indonesia and Pertamina intended to train gas engineers oriented to the specific needs of the country, that is to staff the LNG and petrochemical industries now under construction or being expanded.

With the assistance of the Institute of Gas Technology in Chicago a curriculum of natural gas engineering and a program of development for the



teaching staff have been developed that will, in the short run, generate an important supply of engineers knowledgeable of gas plant operations. Equally important, perhaps more important, this program is expected significantly to impact on the character of engineering education in Indonesia.

Although Indonesia is fortunately endowed with such rich natural resources, Indonesia in the 1970s, as stated in a report published by the prestigious International Development Center of Japan, was in terms of investment and growth indicators, and the distribution of labor force, only at about the same stage as that of Japan in the 1980s, when Japan was in the initial stages of take-off. Similarly, Thailand and the Philippines were at about the same stage as that of Japan from the early 1900s to 1919 (Eguchi, 1981). Oil and gas were discovered in Indonesia in Well Telaga Said-1, North Sumatra, in 1883. Until the early 1960s gas was primarily utilized by the petroleum industry as fuel and, since 1927, for reinjection into hydrocarbon formations. The rest was flared.

Since 1950 gas was used for gas lifting, which caused a sharp increase of production from non-associated gas. The discovery of a relatively large gas reserve at Raja Field, South Sumatra, in 1958, brought the first impetus to start a feasibility study for a fertilizer plant. The first use of gas by industry took place when the first 100,000 metric tons per year Pusri Fertilizer Plant I in Palembang was completed in January 1964. The price of gas delivered through an 80 km 8" pipeline from Raja Field at the plant gate was and still is a mere US\$ 0.24/MMBTU for the first 15 million cubic feet of gas. Since then, Pusri has expanded the plant with Fertilizer Plants II, III and IV, bringing the total capacity to 16 million metric tons per year. The additional gas is delivered from the Prabumulih Field through a 107 km 14" pipeline.

The discovery of huge reserves of non-associated gas in Arun, North Sumatra, in 1971, and in Badak, East Kalimantan, in 1972 introduced Indonesia as an LNG producer. The two-train LNG plant in Badak, with a total capacity of 3.3 million tons/year of LNG, was completed in August 1977, while those trains in Arun, with a total capacity of 4.6 million tons/year of LNG, was completed exactly a year later. Both plants are now undergoing expansion, which will double their capacity, for completion in 1983.

The first export of gas took place, however, a few months earlier, when an LPG floating plant was completed in May 1977 by Atlantic Richfield, producing 13,600 barrels per day of 70/30 propane/butane LPG from its offshore Arjuna Field. This floating LPG plant and storage facility holds a citation from the National Society of Professional Engineers (NSPE) as one of the 10 outstanding engineering achievements of 1977. NSPE cited the facility of the 16,000 tons displacement vessel as the:

- first use of floating offshore terminal for LPG anywhere in the world;
- largest prestressed concrete floating vessel ever constructed at that time;
- first classification of a concrete vessel by the American Bureau of Shipping.

In Pertamina's Jatibarang Field, a 45 tons per day LPG Plant at Mundu came on stream in July 1977. The residual gas from both plants is connected to the 220 km 24" West Java gas pipeline system from the Cilamaya Jatibarang Field to the Krakatau Steel Plant at Cilegon ultimately delivering 250 million cubic feet of gas per day. This pipeline system was completed in January 1977. Since the completion of this pipeline system, gas has also been utilized by the Kujang Fertilizer Plant, the Cibinong Cement Plant and as city gas for Jakarta and Cirebon.

Union Oil's Liquefield Extraction Plant at Tanjung Santan, East Kalimantan, with a processing capability of 130 million cubic feet of gas per day was completed in February 1978, producing "commercial propane," also for export.

It can be said now that 1977 may be considered as the year when the gas industry in Indonesia was born. This can be clearly seen from the following gas production figures of recent years (Table 1).

Table 1

## NATURAL GAS PRODUCTION (billion cubic feet)

1975	211.5	1979	981.3
1976	304.3	1980	1,041.3
1977	517.5	1981	1,098.0
1978	800.2		

In 1980, 78 percent (or 849 billion cubic feet of gas) of gas produced was utilized, while in 1975 nearly two-thirds of the gas produced was still flared (Table 2).

Table 2

## NATURAL GAS UTILIZATION IN 1980 (billion cubic feet)

Fuel gas for oilfields industry	48
Gas lifting	42
Gas injection	115
Refinery fuel	11
LPG	23
LNG	472
City gas	1
Pusri	51
West Java Pipeline	47
	849



In the future, gas will also be used as feedstock for the following plants now under negotiation for construction:

1. The Olefin Center in Arun, Northern Sumatra.

Completion schedule: 1985

Products:	Ethane	450,000 ton/year
	Ethylene	350,000 ton/year
	LDPE	150,000 ton/year
	HDPE	100,000 ton/year
	VCM	110,000 ton/year

2. The Methanol Plant in Bunyu Island, off East Kalimantan.

Completion schedule: mid-1983

Product:	Methanol	330,000 tons/year
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Construction of a pipeline to connect the Poleng Field off Madura Island with Surabaya, East Java, is also planned. However, the use of gas by households is still small.

To encourage the development of additional gas reserves, especially near densely populated areas, the Government is now studying its gas pricing policy. The relation between the availability of gas and price can best be illustrated by what some people call the resource triangle, which illustrates the logic of resource occurrence: Higher prices and improved technology result in new resources that can be economically converted to reserves.

Current prices for industrial users rang from US\$ 0.24 to US\$ 1.92 for one million BTU of domestic gas.

Table 3

DOMESTIC GAS PRICING IN 1981 (per million BTU)

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Pusri Fertilizer Plants	
Plant I - initial 15 million cu.ft.	US\$ 0.24
- for each additional 10 million	US\$ 0.625
Plant II, III and IV	US\$ 0.50
Kujang Fertilizer Plant	US\$ 0.65
Krakatau Steel Plant: for processing	US\$ 0.65
: for power generation	US\$ 1.92
City Gas (Jakarta and Cirebon)	US\$ 1.27
Cibinong Cement Plant	US\$ 1.92

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Indications are that the price for domestic gas needed to stimulate investment in domestic gas development will be about US\$ 3.00/MMBTU.

Studies commissioned by the Government in 1980 see a sizeable expansion of the role of natural gas in the form of natural gas liquids, which could be used directly as natural gasoline without refining, or LPG which could be used for household and industrial use. Both of these could be recovered in large quantities from current and expanded refineries and LNG plants. At present LPG is supplied to the domestic market by the Mundu LPG Plant and the Sungai Gerong Refinery. The local consumption of LPG is estimated to be about 70,000 tons per year.

While oil has been the biggest source of foreign exchange and revenue for quite some time, export gas has become another important source of foreign exchange. In 1980 Indonesia took over from Algeria as the world's largest exporter of LNG, and it is most probable that Indonesia will maintain this position for the rest of this decade. Export gas earnings grew from zero in 1976 to US\$ 2.4 billion per year in 1981 (Table 4 and Table 5).

Table 4

## LNG AND LPG EXPORT

	LNG (in billion BTU)	LPG (in tons/day)
1977	30,995	541
1978	189,414	1,113
1979	323,820	1,000
1980	441,667	1,418
1981 (est.)	442,807	1,350

Table 5

## VALUE OF LNG EXPORT (in million dollars)

1977	80.0
1978	534.4
1979	1,116.5
1980	2,327.5
1981 (est.)	2,455.9



As a recognition of the successes in developing the gas industry, in particular LNG, Indonesia has been chosen as the site of the Seventh International Conference & Exhibition of LNG (LNG-7), which will be held in Jakarta from May 16-19, 1983. The Indonesian Gas Association, established in February 1980, has taken the initiative to form the Indonesian LNG-7 Congress which will be the organizer and host for the LNG-7 Conference and Exhibition. This is the first time in the series of LNG conferences that a developing country, such as Indonesia, will also organize an exhibition.

## MALAYSIA

Malaysia has ample reserves of gas. Numerous non-associate gas discoveries have been made offshore Malaysia, especially within the central part of the Malay Basin, which is located in the Gulf of Thailand. Within that part of the basin explored by Esso, 50 structures have been mapped. Of these, 40 have been tested and non-associated gas was found in over half of the 40 structures. Non-associated gas reserve within the Malay portion of this basin are 6.6 trillion cubic feet, but there are additional unconfirmed gas reserves of considerable magnitude.

In the Central Lucomia Carbonate Province of the Greater Sarawak Basin a number of gas discoveries have been made. By the end of 1978, 200 structures had been mapped, 43 of which had been drilled, resulting in 20 gas discoveries. Proved reserves are estimated at 9.7 trillion cubic feet, proved and probable at 14.4 trillion.

In the Baram Delta Province of the same Greater Sarawak Basin, a number of oilfields have been developed. An estimated 7.7 trillion cubic feet of gas reserves have been located in South-west Ampa.

A number of discoveries have also been made offshore Sabah, but most of these discoveries are small.

All together, Malaysia has now reserves of more than 30 trillion cubic feet of gas. Gas production in 1980, however, amounted only to 41 billion cubic feet. The national energy strategy of Malaysia is to keep exploring for new gas fields and to utilize domestically as much as possible the natural gas that has been discovered.

At the moment, almost one-third of the gas reserves have been committed for export to Japan in the form of LNG, and progress at the 3-train plant construction in Bintulu, Sarawak, to liquefy gas from fields some 100 kms off-

shore is going according to schedule. Each of the LNG train has a capacity of 2 million tons of LNG per year. The total construction cost is budgeted at US\$ 1,175 million. Initial shipment is scheduled for 1983.

Plans are also under way for development of domestic gas-based industries by converting power stations, which use mainly fuel-oil, to gas-firing. The first gas-fired power station will be commissioned in 1984 utilizing gas supplied from offshore Trengganu. Petronas Carigali, a wholly owned subsidiary of Petronas, the Malaysian State Oil Enterprise, and Esso will land 400 million cubic feet of gas per day from their respective contract areas.

Conceptual engineering work for the project has been completed, which also includes extraction of LPG for local utilization in private vehicles, buses, taxis, households and in the agricultural sector, as traditional farming gradually gives way to modern mechanization. Other projects such as methanol, ammonia, fertilizers and petrochemicals are being studied or planned, with fertilizer projects being given top priority. Bintulu is also the site for the ASEAN Bintulu Fertilizer Project. In Sarawak, gas has already been utilized for the generation of electricity and as industrial and household fuel.

On July 31, 1980, an agreement between Petronas, Sabah Shell Petroleum Company and the Sabah State Government was signed for the State Government to obtain 60 million cubic feet of associated gas a day for 20 years, beginning 1983, for the generation of electricity and a number of projects the State Government is considering.

A master plan study on gas utilization in Malaysia is now being undertaken, for completion in mid-1982, by a team of external consultants, supervised by Petronas and the World Bank. This study will recommend the optimum allocation and utilization of gas resources for future benefit.

The Malay Basin geographically covers the southern end of offshore Thailand and the northern end of offshore Malaysia. Overlapping claims have been made by Malaysia and Thailand on the boundary line of their continental shelves in the Gulf of Thailand. To solve the problem of the delineation of the boundary, the Malaysia - Thai Joint Authority was established by the Memorandum of Understanding signed in Chiang Mai, Thailand, on February 21, 1979, by the Prime Ministers of both countries. The Joint Authority came into being on the exchange of the Instruments of Ratification on October 24, 1979. By the terms of this Memorandum, both Governments agree jointly to explore for, and to exploit, the seabed and sub-oil non-living natural resources in a defined Joint Development Area for a period of 50 years. Costs incurred and benefits derived will be shared equally by the Joint Authority. The Con-



stitution of the Joint Authority and its first annual budget have been presented to the respective Governments for their approval.

## THE PHILIPPINES

Drilling activities offshore the Philippines have so far yielded only strong shows of gas in the Reed Bank Area (in well Sampaguita-1 at 6 million cubic feet of gas per day). Drilling onshore in well San Antonio-1, Echague, Isabela Province, yielded gas at 6 million cubic feet of gas per day during drill stem tests conducted in June 1980. A recoverable reserve of some 6 to 10 billion cubic feet of gas was calculated out of these tests.

No other major discoveries have been made to date, although it is known that the Northwest Palawan Shelf consists of reefs, limestones and sandstones. The exploration program for the next ten years calls for the drilling of an average of 20-25 wells per years, 15 being offshore and an average of 5-10 wells being onshore. Since most of these wells are intended to be for oil, no significant development in the gas industry is expected.

In 1979 the Philippines consumed 91.9 million barrels of oil equivalent (BOE) of energy, out of which 2.8 million BOE was LPG produced by the existing domestic refineries. In December 1979, the Philippines entered into a long-term LPG Sales Agreement with Indonesia, which commenced in August 1981. Until December 1981, 1,250 tonnes per month of LPG would have been shipped from Indonesia to the Philippines for domestic consumption.

A US\$ 74.6 million LPG gas complex is being constructed by the Shell Group of Companies at Tabangao, Batangas Province. This complex will have two (2) refrigerated 45,000 cubic meter storage tanks, one each for propane and butane, as well as blending facilities. Scheduled for completion in 1983, this LPG terminal will function as a transshipment point for refrigerated ships lifting propane and butane from energy sources in the Middle East. Initially, 70 percent of the stored propane and butane will be re-exported to neighbouring countries.

## SINGAPORE

Singapore possesses no known indigenous hydrocarbon resources in any form. Its dependence on imported energy is therefore complete. It was only in 1980, after the second oil crisis, that Singapore began to create an institutional framework for energy management. An Inter-Ministry Energy Coordinating

Committee was created as a first step towards promoting consistency in sectoral energy policies. As a second step, an Energy Unit was established in the Ministry of Trade and Industry to monitor prices, supplies and consumption of oil and to formulate and coordinate the implementation of the Government's policies on conservation and security of oil supply. This unit is guided by the Inter-Ministry Energy Coordinating Committee.

To improve the security of oil supply, the Government established in August 1980 a fully owned company, the Singapore National Oil Company (SNOC), to secure oil directly from producing countries on a Government to Government basis. It will ultimately engage in all aspects of the oil industry and energy related ventures, including exploration for oil and gas in neighbouring countries.

## THAILAND

The first Thailand petroleum legislation was enacted on March 26, 1971 as the Petroleum Act 1971, presently still in effect. This act established what is basically a concessionary system. Drilling activities commenced in the Gulf of Thailand on June 12, 1971. Following successful discoveries of natural gas and condensate fields in the Gulf of Thailand, the Natural Gas Organization of Thailand (NGOT) was established in March 1977 to take charge of the natural gas development project. The Concessionaires will assume responsibility for the installation of production platforms and production facilities, while the Government will invest in the pipeline and operate it in order to transmit and distribute the gas produced and to supply domestic consumers with a consistent supply of fuel.

In December 1978, the Petroleum Authority of Thailand (PTT) was established as the sole government agency dealing in petroleum matters by the Petroleum Authority of Thailand Act 1978 in order to strengthen and centralize manpower, and to coordinate petroleum activities, including refining and marketing, in the country.

The Gulf of Thailand has two major basins which are known to be hydrocarbon-bearing (The Pattanin Trough and the Malay Basin) and will probably develop into a sizeable gas province. Exploration for hydrocarbon in the Gulf of Thailand during the past decade has resulted in more knowledge of its hydrocarbon potential. By May 1980, 60 wells had been drilled, 28 of which discovered significant amount of gas and condensate. By April 1981, seven fields had been delineated and proved to be commercial gas/condensate fields, with a total of 11.5 trillion cubic feet of proved and probable gas reserves.



The Pattani Trough occupies the northern part of the Gulf of Thailand. The eastern part bordering the Indochina Peninsula is not as yet properly explored. The Gulf of Thailand is gas prone. Commercial gas was discovered in 1976. Until October 1979, 52 wells had been drilled, of which natural gas had been encountered in 25 wells.

One field, that is the "A" (now, Erawan) structured of Union/Seapec's Concession Block 12, has been brought into production. This structure is situated in the southern part of the Pattani Trough, in an average water depth of 210 feet, situated about 452 km. South of the Sattahip-Rayong Coast. Several gas condensate reservoirs at depths between 1,525-2,650 m have been identified. The quantity of condensate increases with depth, but averages 30 barrels per million cubic feet of gas. Carbon dioxide content ranges as high as 18 percent. Proven reserves for Erawan are 1.58 trillion cubic feet, with another 0.21 trillion cubic feet as probable reserves. Proven reserves in Union/Moeco's Concession Block 10, 60 km north of Erawan structure, are 0.75 trillion cubic feet. It is expected that at least one further trillion cubic feet of gas could be found.

Structure "B", which is located near the north-west extremity of the Malay Basin in 245 feet of Thai waters in Texas Pacific's Concession Block 16, has also been proven to be gas bearing. Proven reserves are 1.33 trillion cubic feet with 12 barrels of condensate per million cubic feet of gas, while probable reserves are estimated at 4.4 trillion cubic feet. Carbon dioxide also increases with depth and averages about 32 percent.

In the development of the offshore gas fields, Union Oil and Texas Pacific are expected to invest US\$ 300 million and US\$ 388 million respectively.

The development of the gas industry in Thailand is the task of the Petroleum Authority of Thailand (PTT).

In the past Thailand's oil shortages were made good solely by crude oil imports. However, efforts have been made to reduce Thailand's reliance on oil imports and develop alternative domestic energy resources. The first phase of the Natural Gas Development Project has been successfully completed, on schedule and under the estimated project cost.

Natural gas from the Erawan Field came on stream on September 12, 1981 and is now supplied to the power plants of the Electricity Generating Authority of Thailand (EGAT), one situated at Bang Pakong and the other at South Bangkok. The volume of gas transmitted to the power plants will be increased to 250 million cubic feet per day in early 1982, and will reach 525 million cubic

feet per day by 1986. The pipeline system from the Erawan Field to Bangkok, consisting of a 425 km pipeline, 34 inches in diameter offshore and 28 inches in diameter onshore from Rayong to Bangkok, was completed on schedule in mid-July 1981, and is designed to have the ultimate capacity to transmit a natural gas volume of as much as 700 million cubic feet per day. Another offshore pipeline 170 kms in length, 32 inches in diameter connects the Erawan Field to Texas Pacific's "B" structure.

For the construction of the pipeline and gas storage facilities, US\$ 792.3 million has been budgeted by the Petroleum Authority of Thailand. In view of the high economic value of natural gas, the Petroleum Authority of Thailand also plans to construct two gas separation plants to be located at Mabtabhut, Rayong Province, to separate propane and butane in the very near future, each with a capacity of processing 350 million cubic feet of gas per day at a cost of US\$ 257 million. Both components will be mixed as LPG product for household use and fuel for vehicles in substitution for gasoline and diesel.

At present, approximately 35 percent of LPG supplied to the domestic market (130 million litres in 1980) are imported. An active programme to promote market penetration of LPG (3 percent of energy consumption in 1980) to displace charcaol and firewood in urban and rural areas has been called for. The price of LPG in Thailand is at present still subsidized by the Government and this has induced more use of LPG, particularly in substituting gasoline as fuel for vehicles.

Between 1978 and 1990 Thailand will require around US\$ 4.2 billion in investment funds for the power gas pipeline. The present demand forecasts for natural gas by the power and industrial sectors indicate that in the post 1985 period at least 650 million cubic feet of gas per day (at 900 BTU/cubic foot) can be absorbed. On top of these demands EGAT might possibly demand by 1989 a 900 MW thermal unit, which would require about 210 million cubic feet of gas per day.

A Natural Gas Utilization Study is now being undertaken by consultants from the PTT. The possibilities for the development of a petrochemical industry, and the production of ammonia, are also being investigated. It is anticipated that by 1987, gas will substitute about US\$ 900 million a year (in 1980 dollars) in fuel oil imports.

## REGIONAL COOPERATION

The first oil crisis in 1973/1974 brought awareness and realization of the strategic importance of oil and gas and their vital role in the development of



the economies of the Association of Southeast Asian Nations (ASEAN). A preliminary meeting among top officials of national oil companies and observers of government oil agencies was held in Manila, the Philippines, on September 5-6, 1975. On October 15, 1975, the ASEAN Council on Petroleum (ASCOPE) was founded, with the signing of the Declaration by the heads of the national oil companies or national oil agencies in the region.

The aims and purposes of ASCOPE include among other things promotion of active collaboration and mutual assistance in the development of oil and gas resources in the region through joint endeavours in the spirit of equality and partnership, collaboration in efficient utilization of oil and gas and provision of mutual assistance in personnel training and the use of facilities and services.

The present members of ASCOPE are all national oil companies: Petronas (Malaysia, established in 1972), PNOC (the Philippines, established in 1973), SNOG (Singapore, established in 1980), PTT (Thailand, established in 1978), and Pertamina (Indonesia, established in 1957).

ASEAN countries are united geographically by the ASEAN Seas. The Andaman Sea, for instance, is shared among Thailand, Malaysia and Indonesia, while the South China Sea is shared by all ASEAN countries. While in the past the ASEAN Seas have been important strategically as crossroads between two continents (Asia and Australia) and two oceans (the Indian and the Pacific Ocean), in the next decade the ASEAN Seas will become more important as the source of natural resources c.q. oil and gas.

When ASCOPE was founded, only Indonesia and Malaysia were producers. The Philippines joined ranks of oil and gas producers in February 1979, when the Nido Field was brought on production, and Thailand in September 1981, when the first gas was delivered from the Erawan Field to Bangkok. Some of the projects that have been or are being completed by the various ASCOPE Working Committees by 1981 are:

- Stratigraphic Correlation Studies in the Offshore Waters of ASEAN;
- Heatflow Studies;
- Data Collection on Oil and Gas;
- Establishment of Common Regulations on Safety and Environmental Protection;
- Assessment of Potential Demand and Supply of LPG in the ASEAN Region;
- Possible Uses of Methanol in the Region.

Some of the studies relating to oil exploration and exploitation are just as relevant for gas.

Although ASCOPE was originally set up on a non-governmental level, its achievement has made ASCOPE the most advanced of the ASEAN organizations in implementing the various cooperative programmes within ASEAN.

After the second oil crisis in 1978/1979 the ASEAN Economic Ministers decided to give a strong push to ASEAN energy programmes. Thus the First Meeting of the ASEAN Economic Ministers on Energy Cooperation was convened in Denpasar, Bali in September 1980, resulting in the following decisions:

*Firstly*, the Energy Ministers agreed to propose to their respective governments that they should explore the possibility of formulating a regional oil and gas exploration and development policy on the basis that each ASEAN government "may invite the government-sponsored oil and gas companies and authorities" of the other ASEAN countries "to participate in the exploration and development of its oil and gas resources."

*Secondly*, the Energy Ministers stipulated the diversion of labour on energy co-operation in the ASEAN organization. ASCOPE shall handle and be the official vehicle of ASEAN for all oil and gas matters in the region.

On gas cooperation, the view is that, in the intervening period before new forms of energy become commercially viable or before new and larger reserves of oil can be discovered, natural gas will be the key source of energy as a substitution for oil, and will tide countries over the transition from oil. Three approaches have been identified:

- the long-term approach is particularly directed towards the development of alternative energy sources to substitute for gas;
- the medium-term approach is aimed at increasing exploration and development activities of gas in the region;
- the short-term approach is aimed at conserving the production of gas and utilizing efficiently the gas produced.

Indeed, energy cooperation in ASEAN is still in its formative stage. However, the various programmes in energy c.q. gas development in ASEAN which have already been formulated by the government and the gas industries provide a sound basis for further activities in this field.

## SUMMARY

It can be seen, therefore, that there has been strong and successful development of the Southeast Asian gas industry in the last decade.



This development has resulted largely from the perception by the governments concerned of gas as being an important source of energy for the next 30 years and the gas industry's positive reaction to the incentives provided by such governments to find and develop gas reserves in the region.

In passing, it should be recognized that many of the decisions taken to develop these gas reserves were courageous decisions. For example, those taken in the early 1970s in connection with the development of LNG involved huge investments in what was then largely untried technology.

The result is a mature gas industry in the region, poised for further extensive growth, within a framework of clear government support and enhanced by the mutual co-operation of governments through the ASEAN machinery.

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## ECONOMY

(This is a selection of articles in *The Indonesian Quarterly* on economy in Indonesia. Single back issues of the journal can be obtainable from Bureau of Publications, CSIS)

1. A Perspective of Indonesia's Economy in 1983 (Current Event), by *Panda Radja Silalahi* (Vol. XI, No. 1, January 1983)
2. A Strategic Analysis of Industrialization, by *Ali Moertopo* (Vol. XI, No. 1, January 1983)
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4. Industrial Development in Indonesia, by *R.B. Suhartono* (Vol. VIII, No. 1, January 1980)
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6. Aspects of the Tourist Industry in Indonesia, by *W. Donald McTaggart* (Vol. V, No. 2, April 1977)
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## Book Reviews

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### After the Decadence of the Old Order Period

*The Indonesian Economy During the Soeharto Era*, edited by Anne Booth & Peter McCawley, Kuala Lumpur, Oxford University Press, 1981, xxvi + 329 pp. This review article by Prijono Tjiptoherijanto is translated from *Tempo*, 19 June 1982.

That the government of the New Order has made the utmost effort to repair the quite disastrous economic conditions that were the legacy of the Old Order is an irrefutable fact. Guaranteed economic stability gave fruit to single digit inflation from 1969 to 1971. Added to the determination to implement a balanced budget and supported by price stability during 1977-1978, there is complete certainty that there need be no pessimism for the balance of payments while this regime is in power.

Without trying to be condescending, Anne Booth and Peter McCawley have gathered together the various written opinions of specialist in particular fields with the objective of examining the economic policy of the New Order. It is likely that some quite sensitive issues will be found here; such as the fact that while absolute poverty has not actually increased, there are still many poor, and that the implementation of policies to increase their standard of living is very slow in coming about. The reason is that there is no clear managed labour policy,

which is important for overcoming the problem of poverty (p. 319).

In addition, the emphasis on indirect taxation for state revenue -- which affects the middle and poor classes for the population more -- is objectively a long way from the principle of equal distribution. Indirect taxes are certainly more easily collected, but this should not be the principal objective of development. Nevertheless, the desire of the government to bring about beneficial economic development need not be doubted. The attitude that gives priority to development is apparent, for example, in President Soeharto's Address of State which is more oriented to economic rather than political issues -- such as was the case before 1966. More and more we have an outward-looking, rather than an inward-looking orientation.

It appears that various problems will still over-shadow the Indonesian economy in the future. Dualism has not disappeared. Indigenous entrepreneurs still have feudal attitudes and (a legacy of the colonial period) a predominant role for the government seem to be lasting problems (pp. 17-19).

The problems of unemployment and poverty are also examined in depth. It appears that the theme of the book is directed towards these problems, who knows whether it is because of the views of the writer of this chapter herself (Anne Booth, with the help of R.M. Sundrum) or whether this single question is considered so critical. Apart from raising the difficulty of obtaining dependable data with which to calculate income distribution, the shortage of land in Java when considered in conjunction with the differences of income in this island's urban

regions, creates a problem which frequently worries decision-makers.

This fact leads to the conclusion, bravely declared by the editors of *The Indonesian Economy During the Soeharto Era*, who state that Indonesia will never become a welfare-state. The reason is that low nutrition and health causes and is also caused by a continually growing number of poor. Then what is the answer? The authors of the ninth chapter, Terence Hall and Ida Bagus Mantra stress the importance of the family planning programme and note its success in Java and Bali. Leon Mears and Sidik Moelyono, who wrote the chapter on "Food Policy," meanwhile see changes arising from the *Bimas* (Mass Guidance) programme alone being extended from Java to regions beyond Java. In addition, there should be a strategy aiming at a "spread commodity risk" rather than a "single commodity risk" such as that now being carried out. Thus it is the ideal of food self-sufficiency rather than *rice* self-sufficiency which the New Order expects to become reality.

Basically the book compiled by Anne Booth and Peter McCawley is full of hope, although punctuated here and there with worries. The contributors of the papers are confident that growth and stability can still be expected for Indonesia in the 1980s.

It is a fact that several changes have still to be made. As just one example, the bureaucracy must be simplified for the industrialization programme to proceed. In other words, an industrial infrastructure must be constructed and institutions and expertise produced to support this programme (pp. 95-96). In addition methods to increase the revenue of the non-oil sector still need to be considered and this has become a topic of debate recently. It should be remembered that it was only because of the oil boom in the early 1970s that our balance of payments improved. For this reason other sources of revenue need to be thought of. One of these is certainly taxation, but we should note that we should not simply increase taxes but, more than that, it is most important to improve the administration system for taxation (pp. 156-157).

A searching question levelled at all of us by this book touches on the question of how overseas wealth -- especially that resulting from the oil bonanza -- can be best used so as to overcome the poverty problem in Indonesia. We have all become conscious of just how important it is to distribute wealth more evenly to reduce poverty. But because it is stated once more in this book we feel it is increasingly valuable to review once again our experiences up to now. This is what makes the various articles collected together by Anne Booth and Peter McCawley valuable to read.

## The Overall Limitations of Small-Scale Industry

*Small-Scale and Handicrafts Industries: A Basic Need Approach* (In Indonesian: *Industri Kecil dan Kerajinan Rakyat, Pendekatan Kebutuhan Pokok*) by Christian Lempelius & Gert Thoma, Jakarta, LP3ES, 1980, 262 pp. This review article by Perdana Gintings is translated from *Prisma*, February 1981.

Small-scale industry has become more well-known since Ir. Soehod became Minister of Industry. The Department of Industry still consists of 4 Directorates one of which is the Directorate for Small-scale Industry. The definition of small-scale industry is determined by an ordinance which replaces the 1978 ordinance (176/M/SK/10/1978) which was felt to be too narrow in its application. With the new ordinance (133/M/SK/8/1979) the boundary of small-scale industry has been fixed as: a capital investment (machinery) of less than Rp 70 million, investment per worker of Rp 625,000,- the owner shall be an Indonesian citizen, etc.



Small-scale industries are classified into four major groupings according to their function: small-scale industry having ties with medium- and large-scale industry, independent small-scale industry, and small-scale industry producing artistic goods and village industries.

Small-scale industry, as defined in the results of the research of Christian and Gert in 1976 and 1977 in Central Java, is based upon the Central Bureau of Statistics (BPS) of course there cannot be ignored the opinion of M. Dawam Rahardjo contained in the December 1976 edition of *Prisma* and titled "The Role of Small-scale Industry." In this work small-scale industry is defined as having 20 to 80 workers and capital of US\$ 23,809 to US\$ 56,000. Seen from the number of varying opinions, that apparently indicate inconsistencies, there really needs to be determined a concrete boundary so that difficulties do not arise in the future-both for research or for management. This is very necessary so that changes do not take place every time there is a change, for example, in the leadership of the Department of Industry. As development and growth occurs the boundaries previously determined will change. Nevertheless, when we have determined a firm basic pattern subsequent development will be more managed and manageable.

The problem of small-scale industry is quite complex and forms an endless cycle. Perhaps the cycle varies from one area to another, but the principle is the same: small-scale industrial entrepreneurs are poor and continue to be poor because of poverty itself. And it is this endless cycle that invites pessimism. It is possible to find a solution all at once under today's conditions? If the problem of capital is overcome, technical problems arise. In handling the technical problems, marketing problems arise. In overcoming marketing problems management problems arise and so on, until we arrive at the point where we can no longer formulate precisely what problem should receive priority.

This matter can be related to the problems as outlined in the book. Firstly, there is the problem of financing working capital. Capital can be obtained from all sorts of sources and

this depends upon the conditions in that region. If banks are the source of capital then what impresses these businessmen is their non-sensical, even loathsome organization. Technical and economic preconditions are required which are very far from the thinking of the businessmen. The knowledge and level of education of the businessmen are insufficient when faced with a bank bureaucracy. If they use their own capital their capacity is restricted. And what can be borrowed from neighbours is usually insufficient. The final alternative is to borrow from wealthy merchants. With a merchant their problems become increasingly complex. Despite this there are still felt to be positive aspects. The management of loans is straightforward. It is sufficient that both sides trust each other. Written agreements and the like are not necessary. Whatever amount of cash is needed can be obtained directly and quickly. The merchant can give credit in kind. The merchant could also at the same time become an agent for the sale of the goods produced. Or if one of these two options is impossible the merchant can fix an interest rate exceeding that of the original agreement. It depends upon common understanding. This relationship can apparently be a good one and can continue for quite long periods. But there is one matter which is clearly not congenial. While a merchant may offer good service, he plays too big a role. He can extract a profit from the basic goods, fix the cost price of the goods and then also give quite a high rate interest. The position of the businessmen does not allow them to make decisions concerning their own produce.

In the end they no longer function as businessmen but as workers -- even though they own the means of production. A consequence of this situation is that the supply and qualifications of labour is included in the work environment. Similarly the level of expertise and knowledge of the businessmen has an impact so that their weakness is complicated. In the end concepts such as production quality, the quality of raw materials, production shifts, speed of production, production costs and labour productivity are far beyond the reach of the businessmen. In short: why should such matters be

thought of if working capital is limited and marketing is bad? In the worse case it could mean that the sale of goods is sluggish but that they must be produced continuously. If for example, they own a fixed amount of working capital for how long are they willing to store goods until such a time that the market is thought to be good? Good marketing is when they can save the profits from sales.

The calculation of production costs on pages 67 and 68 needs correction. The profit of six family members is Rp 178 per day per person; this is with the view that the family members, including the company heads, are not all involved in the business. However, when they also work it is certain that the wage they receive can be entered as additional reverse. So according to calculations the businessmen's profit can only be expected from the profit of his sales. If for example the company is working at the "break-even point" then they cannot obtain further income. From the experience of the writer as a field worker, businessmen never obtain a profit from their enterprises' produce, although they may say that they make a profit. The income they actually make from their own efforts is turned back into the enterprise. So the businessmen are actually sellers of their labour. The basic cause of this situation is that they are always on the losing side. They are weak in basic materials, weak in production techniques, weak in marketing problems. They never make the decisions and can never make the decisions while they are bound in debt.

It is a different matter of businessmen with working capital. When the price is low they can store or make a stock while the market does not permit sales. This means they can make the decisions while their working capital is on hand and their costs of living are satisfied. The smaller the amount of working capital, the smaller is the available time and the smaller is the capacity to make decisions. With limited capital the circulation of capital must be rapid. It is obvious that marketing does not permit such a circulation to take place.

In connection with financing it is actually better if study is not limited to quantitative figures but is also based upon the percentage of

capability: what percentage of businessmen are able to be independent without expecting capital from others? What percentage are tied to middlemen, etc. This tie can be related to construction and development.

What has actually happened to small-scale and handicraft industries in Central Java can be roughly termed a state of cause and effect. The income of small-scale and handicraft industry businessmen is low because of low production. Low production is due to limited capital. Capital is limited because there are no savings. There are no savings because of market uncertainty. The cause of market uncertainty are low quality and the buying power of society in the local market which is weak. Especially local market factors and the buying power of society are external problems: too distant to be grasped by this kind of businessmen. But products of low quality, broken production schedules, simple equipment, basic materials beyond their life-expectancy and unsuitable expertise are caused by limited capital. The income of the businessmen is low. And so it continues. It can be abbreviated like this: capital - marketing - production techniques. If the capital is available then production techniques can ensure good quality, a fixed production time, high productivity and satisfy the economic and technical requirements of an enterprise. If production techniques can be mastered then the marketing problems can be overcome.

Without reducing the presence, role and work of field investigators who have been trained up to now, it is quite interesting to analyze what is really meant by the work of instructors. Is this a "job" so that we don't need to look for their mistakes? What training is really needed for instructors to see that their understanding of supervision involves a truly broad understanding. Supervisory staff, as an "advance guard" who are constantly in contact with businessmen, should be given special criteria involving the work, qualifications and targets which must be attained.

Without ignoring suggestions and advice, certainly in other sectors we can see a type of "shock corrective" directed at industrial ad-



ministrators. Such evaluations are certainly quite beneficial, yet an alternative would be more productive. The Department of Industry has for example already suggested the establishment of education and up-grading consultancies, technical demonstration instruments as well as the development of marketing information.

Evaluations merely give suggestions with directives as long as they are sheltered from the opposite opinions of other parties without there apparently being a desire to delve deeper and more fundamentally. Here, there can be seen to be several departments involved, including that of cooperatives. Their administrative activities can be well integrated. Also the extent to which the Department of Trade can participate in marketing problems.

To administer small-scale industry new concepts are needed, not only to be accumulated, but able to locate the bases of industrial development -- not only for present needs but for future needs. These alternatives and strategies are for growth and development.

## Village Communities Population Movements

*Population Movements in Wet Rice Communities* by Ida Bagus Mantra, Yogyakarta, Gajah Mada University Press, 1981, ix + 210 pp. This review article by Andre Bayo Ala is translated from *Optimis*, August 1982.

Population movement is not a new factor in human life. It has been occurring since long ago, in fact for as long as humanity itself. Yet

systematic study of population movement in Indonesia in general, and in Java in particular, has not to date been satisfactory. There are still many aspects of this which have not been covered. "Today our knowledge of the pattern and character of population movement in Yogyakarta is still very limited" (page 1).

To fill this gap, Dr. Ida Bagus Mantra has offered a very interesting book that discusses in depth various aspects of population movement. The book is taken from the dissertation Ph.D. he obtained at the University of Hawaii in 1978. His other works are *Proyeksi Penduduk Daerah Istimewa Yogyakarta, 1971-2001* (Population Projections of the Yogyakarta Region, 1971-2001) and *Pola Mobilitas Penduduk dari Desa ke Kota* (Pattern of Population Mobility from the Village to the City), *Widya-pura*, No. 6, 1980.

Differing from other studies that focus more upon permanent population movement, in his writings Dr. Ida Bagus Mantra sets out to embrace both permanent and, impermanent population movement in his analysis commuting, overnighting, boarding, emigrating and moving are all included in his observation and analysis.

All these forms of population movement are discussed in depth by using the seven questions presented in Chapter One (see pages 5-6) as a guide. The characteristics of those who move and those who stay, what is their purpose for moving, the place to which they move factors encouraging, factors obstructing and factors facilitating population movement are all analyzed in detail. In his analysis is also included the variable of time -- when the population movement took place -- although of the seven questions that are the starting point for his research and analysis, not one touches on this variable of time.

In the book, Dr. Ida Bagus Mantra sets out to discuss the question of population movement by using a decision-making approach. The use of such an approach is very appropriate because in essence whether someone moves or does not is the result of human decision.

In using the decision-making approach we can carry out content analysis or process analysis. Content analysis concerns the substance of the decision someone makes, and process analysis concerns the stages gone through in decision-making.

We can read the content analysis and process analysis in Chapter Six: The Decision to Move or Stay. In addition to providing a long and broad analysis of the content and process in making the decision to migrate, the writer outlines it precisely in schematic form (see the diagrammes 6.2, page 143, and 6.3, page 163) which facilitates our understanding of decision-making in migrating.

From the analysis of factors influencing whether population movement takes place, it is known that there are several factors that on the one hand will encourage it and on the other hand can function as obstructing factors.

It is generally considered that economic pressures are the dominant factors in encouraging population movement. As is shown by the results of research in the villages of Kadi-rejo and Piring, apart from acting as incentives, economic pressures can at the same time be obstacles. Economic pressures are one of the principle incentives to commuting: "Economic pressures that result from the high cost of living in cities like Yogyakarta, together with low wages, influence the decision in favour of commuting" (page 96). Conversely, economic pressure is an obstacle to migrating. Migrating to another place will naturally entail having sufficient money to pay for everyday expenses before new work is obtained in the new location, and it is because of this very lack of money that most villagers are reluctant to migrate (see page 153).

It is a similar case with the philosophy of life of the Javanese: "*mangan ora mangan waton kumpul*" (eat or not, as long as we are together), feeling secure if gathered with relatives or with the family. It is generally assumed that such a world-view would obstruct population movement. In reality, however, the results of this research indicate that this philosophy functions as both an incentive and an obstacle.

"The dominant reasons for circular movements are to attend socio-cultural events and to visit relatives or friends" (page 111).

It is such research findings that indicate just how complex are the factors influencing population movement. At the very least, these findings will remind the decision-makers to be more careful in dealing with the question of population movement. For one effort or policy that could encourage the movement of a certain population could at the same time obstruct the movement of others.

In the end this is a very important book for the decision-makers and is also very useful for students of social and political sciences, as well as for the broader society which clearly cannot be separated from carrying out such movement in its everyday life.

## Stimulating the Thoughts of the Younger Generation

*Indonesia in the Pacific* (In Indonesia: *Indonesia di Pasifik*), by G.S.S.J. Ratu Langie, Jakarta, Sinar Harapan, 1982 (reprinted), 168 pp. This review article by P.H. Sirait is translated from *Sinar Harapan*, 11 Maret 1982.

This book was first published by the author himself in 1937 under the title "*Indonesia in den Pasific*."

At the time the book caused a sensation and angered the Dutch colonial authorities, as the author himself had before when, as a member of the Volksraad, he had delivered to that council a series of speeches. In 1928 his speech



"Schaduwten der Onrust" dealt with the question of the Pacific generally, and in 1935 his speech "Verarmingsfactoren" (The Causes of Poverty) was a speech, of some substance, which exposed the arbitrariness of the Dutch colonial government and its practices which appropriated Indonesia's natural wealth causing greater and more widespread poverty for its people.

Then in 1936 came a further speech entitled "Slagschaduwten", which returned to a discussion of the Pacific Region which he related to the growth of Japan's industry and its militarism -- and its relationship to the position of Indonesia, then a Dutch colony, in the Pacific.

These speeches had been widely disseminated in Jakarta, 1934, in the form of occasional articles for the magazine *Penindjauan* ("Observations"), of which the author was at the time one of the editors, as well as through a Dutch-language magazine *Nationale Commentaren* (directed by Dr. Sam Ratu Langie himself) published from 1937 to 1942.

When Dr. Sam Ratu Langie was detained in the Sukamiskin prison for 4 months, under the false charge of slandering the Dutch colonial government, he completed his book and published it on being released from jail.

Now, 45 years later, *Sinar Harapan* is publishing the translation (of S.I. Puradisastra), enriched with about 22 photographs (most of them of the "olden days").

The manner in which Dutch capital operated in Indonesia after World War I which had accelerated the "impoverishment" of the people the author explains as follows (page 39): "Dutch capital operates here under the protection of the Dutch government. The time when excess profits (Batige Sloten) were expropriated is certainly over. But in its place there has arisen the situation where the large part of the assets from the balance of payments flow to Holland in the form of dividends, costs of the directors, holiday pay, pensions, and so on. In this way, Indonesia has become an employment market for Dutch intellectuals, tradesmen and members of the middle class, while Dutch

industries in this country enjoy a protected market ...."

How the Dutch colonial government protected the market for its industry in this country, which also entailed crippling domestic growth and narrowing the scope for Indonesia's workers, is described in this way (page 139): "It is not to be accepted that this people -- whose household expenses can be measured in terms of cents, who live without spiritual conflict and whose economy is without harshness -- will use and continue to use goods produced overseas where a worker receives a daily wage which could alone meet all the needs of an Indonesian family for one whole month."

He goes on: "For over 10 years Indonesia has satisfied over 30 percent of the demand for coconut oil of several countries. But until now Indonesia has exported its coconut produce in the form of kopra. The kopra is processed using very little labour with a little assistance from the sun, or a little fire in still-primitive drying places, and is then ready to be prepared for export. The processing of kopra into (cooking) oil is done elsewhere and the wages are also paid elsewhere" (page 137).

In other sections of the book, much is also said about this "process of impoverishment," which of course infuriated the Dutch at the time.

Even though it was written 45 years ago, the book is still good to read today, especially as we can admire the author's courage in exposing the bankruptcy of the Dutch colonial government. It is also captivating to read his political, economic and socio-cultural analysis of the Pacific Region at the end of the 20th century, in relation to the shifts in world power that took place after World War I -- something that still seems topical and relevant today and for the future.

On the rise of new powers in the Pacific, the author states: "They themselves (the United States and Japan), during and because of World War I, have become creditor nations due to their industrial development. And there has correspondingly now appeared a new cli-

mate with its own capacity to reorganize the world system and the world economy according to the changing situation. This is now the Pacific Region. The region's axis is New York-Tokyo, is connected to Nanking and Canton, and involves the Pacific Ocean which is no longer calm or Pacific at all! Instead, the peacefulness of the ocean is continuously disturbed by the coming and going of the trading vessels of the maritime states and the thunder of the battle exercises of the American, English, Japanese and French naval fleets that go to and fro, circling in the South-West corner of the Pacific ..." (page 28).

The author reminds us also that "of these nations Japan is the exemplary of power and that which is most prominent. The instruments of Japan's military power and strength originate in an economic and social organization which is suitable to that country ..." (page 28).

On the rise of Japan, the author suggests that: "From a feudal agricultural nation before the (1868) Restoration, Japan, in the space of two generations has developed into a modern state of the first order. Two important factors have been behind Japan's advance. Firstly, increasing population pressure (of 1 million per year) and secondly, the modernization of her society through school education have continuously forced Japan to orient its economic policy towards industrialization" (page 73).

The impact of the development of Japan's industry would be particularly felt in the Asian-Pacific region. According to the author, "this is due to the proximity of the nations to Japan and due to their still low living standards which means that they prefer the cheaper Japanese industrial products. This, in the end, depresses the market for the industrial production of western states, leading to fierce competition between the two sides."

Japan is able to maintain these low prices because of a (then) still low standard of living and because the communal family is still the basis for the entire society, unlike the industrial states of Europe and America. The development of Japan's industry has been characterized by its systematization and its organization,

due to the mutual influence of governmental politics upon the expansion of large-scale and prominent industries" (page 75).

There is still much socio-economic and political analysis the author has made, especially that dealing with the rise of new world powers after World War I, which should actually (at the time) been taken as a warning of the possibility of a World War II breaking out - something that did indeed become reality. The author even reminds us in the book that "the communists will use subversive tactics in their efforts to undermine national forces in the Asia-Pacific region ..." (page 121).

His analyses extend far into the future. Evidence of this is that the author then recorded that "the problem of the Arab states will be strongly influenced by the way in which the Palestinian problem is resolved" (page 35). Also, "the need for a North-South Dialogue" (page 93), which has been hotly debated recently (in the 1980s), he noted 45 years ago. And there is still much more.

It seems that what the publisher has stated in the foreword is fitting (page 14): "Therefore, the work of Dr. Sam Ratu Langie still bears deeply inspirational relevance. It also seems useful to stimulate the thinking of the younger generation and can inspire the succeeding generations in facing the challenges of history ...."

## Between Myth and Reality

*Indonesia: Between Myth and Reality* by Lee Khoon Choy, London, Nile and Mackenzie, 19 , 222 pp. This review article by Max Arifin is trans-



lated from *Suara Karya*, 26 January 1982.

In the advanced states, almost every ambassador has written a book. Almost every leader writes a book or his memoirs because books are the first silent witness to someone's personal character formation, his vision, beliefs, integrity, political views and so on.

Before ex-President Carter planned the (USA-Egypt-Israel) Camp David negotiations, he read to the end the writing of Anwar Sadat "The Search for Identity" and that of Menachem Begin "The Revolut." Only after finishing these books did he hold that historical and successful meeting.

Similarly, in educated circles in the West, in making one's choice in a general election, one begins first by looking for books written by the candidates and then decides who will be chosen.

There are two former overseas ambassadors that have served in Indonesia and written interesting books on Indonesia. The first was the former United States Ambassador Howard P. Jones, with the book "The Impossible Dream" (Ayumas Pty. Ltd., Singapore, 1977). The second (which we are discussing here), is that written by the Singaporean em-Ambassador Lee Khoon Choy, entitled "Indonesia: Between Myth and Reality."

He is a rather surprising person. As someone with a Western education, he knows well how it is that he could be called an intellectual. He is a capable and successful political figure, a sensitive writer and painter, a reliable music enthusiast and a sportsman. (Western liberal education emphasizes what is termed "the basic humanities.")

Recently in the West there has certainly been complaints, such as that thrown up by C.P. Snow in his book "The Two Cultures and the Scientific Revolution" (Cambridge University Press, 1959), pointing out the existence of two cultural poles that do not communicate,

they even tend to distrust each other and which as a result preserve the other. In Indonesia -- who knows whether it is Snow's description or not -- the former disarray in the embassy of East Germany is living proof of protracted distrust. And this provides no benefits whatsoever, because we all lack sufficient integrity based on a common sense of chivalry, but instead sow intrigue and seek to widen the gaps between our own people without wishing to look further.

Lee Khoon Choy wants very much to know the cultural background of Indonesia: Why is it that Pancasila is so respectful and well-received, why is there so much tolerance shown between religious communities here, why do the words consultations and consensus ("Musyawarah dan Mupakat") have so much influence so as to be able to overcome conflict? On the other hand -- according to him -- these conditions in Indonesia are just what makes it possible that unity and consensus will not be achieved. Khoon Choy arrives at the conclusion: the existence of a general spirit of tolerance in the Indonesian nation was caused by the variety of peoples and religions that came one after the other to Indonesia. So that what there is in Indonesia is no longer pure, is neither purely white nor black - but grey. That may be the actual abbreviation for "the spirit of tolerance and syncretism" in Indonesia (page 5).

As an example, Khoon Choy points to the idea or concept of Nasakom of former President Soekarno. Its failure, according to various of Indonesia's leaders themselves, was due not to the unity of these three concepts becoming impaired but, rather, because one of the three social forces chose to force its wishes upon others by force.

Beginning his career as a journalist, the writer once covered the Asia-Africa Conference in Bandung, was inspired by its spirit of journalism and art and has explored virtually all of our homeland. From the book's table of contents we know that the writer has been to Toba, Toraja, Irian Jaya (Wamena), crossed Bali, investigated the shrines of Sampo in Semarang and elsewhere, explored the arca of

the Badui tribe in Banten and Tengger in East Java, penetrated into aspects of the culture of the Mangkunegaran Keraton (palace) of Solo-Yogya, delving into questions of the keris (traditional sword) and jewels as well as the world of the wayang, explored and gone into the caves of Semar in Dieng and the Guwa Ratu of Mount Srendang only to witness for himself the voice of Semar said to be heard there. And he was very pleased to be able to have recorded that voice of Semar. Not to be forgotten, he witnessed various types of cigarettes levitated by someone's spiritual strength.

He also studied the history of spiritualism. His evaluation of spirituality is that: it is a combination of occultism, metaphysics, mysticism and other spiritual doctrines. From Confucianism was taken the effort to achieve harmony so as to achieve a structured society and respect for the souls of our ancestors; from Taoism was taken belief in supernatural powers and communication with the spirit of the dead, from Buddhism was taken the essence of the philosophy of self-contemplation and avoiding damaging ambitions; from Hinduism, the belief in reincarnation and from Islam was taken the total surrender of oneself to God (page 181). And the struggle to achieve its recognition (through the MPR) marks the beginning of a new episode in the history of religion in Indonesia.

The book is completed with a chapter, also very interesting, on sport and recreation. It is of course very necessary that we read this book because it presents how we appear, and to compare how we appear in the book with our actual appearance -- especially his admiration for the tolerance possessed by our nation.

Or is there another standard to see what actually is? Yet the question, always worrisome, which poses itself is: what do we appear as, and does it fit our actual spirit?

## Modern Javanese Literature: Village and Countryside

*Javanese Literature Since Independence* by J.J. Ras, The Hague, Martinus Nijhoff, 1979, 442 pp. This review article by Subagio Sastrowardoyo is translated from *Tempo*, 5 December 1981.

Javanese literature usually deals with the issues of natural phenomenon, history, mystical philosophy, and esthetics in poetic songs (tembang macapat). All these are considered classics with a value already well established.

The majority of the Javanese literary experts from the older generation view Javanese literature as having ended with the works of Ronggowarsito, (1801-1874). That writer is often referred to as, "end of an era author." He is seen as the last in an era which has no equal in Javanese literature. Here we quietly interject the hopes that this constant comparison with past works will be done away with once and for all.

The present development in modern literature deals with twentieth century experiences, nevertheless its focus and orientation is rooted firmly in the past. Authors and enthusiasts are more persistent in chewing the cud and thinking about the past centuries than following and processing literary thought and concepts in present day literature.

With or without intention, the Javanese are inclined to underestimate the potential and vitality of their own literature.

This lack of care and interest in Javanese literature also has causes outside the world of Javanese literature. The educational system in the schools, up to now has not emphasized the teaching of regional languages. This has broken the continuity of those interested and



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involved in literature. The rapidity and activity in the life of national literature in the Indonesian language has tended to lessen the role of regional literature.

Nevertheless, without the assistance of formal teaching or the encouragement from the literary experts, also without a lively literary program, the regional literary works of writers has progressed. The anthology of Javanese literature since independence is a witness to this fact. Modern Javanese literature begun by Padmasusastra with his novel, *Serat Rangsang Tuban* (1912), has been continued by those writers, specifically those who have come to the fore since independence. The fruits of this period consists of a variety of writings such as, short stories, poetry, rhymes, cultural articles, and fragments of novels. It is a kind of sampling from a wide selection which is presented chronologically from 1945 to 1975.

A large portion of the writings have been selected from magazines. From this we can imagine what a major role magazines played in supporting literary figures. Some of those magazines were: *Penyebar Semangat*, *Jaya Baya*, *Kunthi*, *Parikesit*, *Mekar Sari*, *Jaka Lodang*, *Dharma Kanda*, *Dharma Nyata* and *Kumendang*. In addition, there were book publishers such as Balai Pustaka, which gave the motivation, the impetus for modern Javanese literature to continue.

Another major goal of this book is to present a sociological view of the Javanese people. "It is much too easy to undertake literary research and busy oneself with the individual works as though they were merely art forms," said J.J. Ras in his introduction. In reading the writings included in this anthology, one can learn a great deal about various aspects and problems of life as experienced by the people since achieving independence.

But usually sociological views of that nature contain hidden meanings. They avert or turn away from artistic evaluation of the literary figures or refrain from approaching literature as literature. In fact, in recent times seldom has an exact or in depth evaluation of modern Javanese literature been undertaken.

Work after work has been compiled in chronological order in the collection, presenting a knowledge of Javanese literature which is quite complicated. With the arrival of this form of novel, contain this type of dialog framework, Javanese literature is brought to a point of realism which is more precise and responsible in investigating life's movements.

The romantic style can still be found in the early writings. It compares good and evil in an absolute manner, such as is done in the wayang (shadow plays). This is still in accord with the moral stance of the "priayi" which is bourgeois and is inclined toward viewing things from just one perspective.

The writings we see now focus sharper in regard to characters, events and experiences. Therefore, what is appearing now is a life more natural, complete and varied. Together with this, the inclination is to come closer to presenting the realities truly faced by the poor people in the village and in the countryside. Consequently, the language used in the dialogs and accounts is in accordance with the simplicity of that cultural setting.

Within that context there is an obvious phenomenon when compared with modern Javanese literature. The inspiration for the dynamism of life as portrayed in contemporary Indonesian literature comes from the heart of the big city, namely Jakarta. In Javanese modern literature the inspirations is taken primarily from the close relationships in the small towns and villages. These are the centers where the regional language is still developing naturally, and is not hindered by the desire to appear clever.

In short, with this anthology modern Javanese literature is definitely fitting to be approached as an object of literature and accepted as material for serious study. The departments of Faculty of Letters, that until now have limited their attention to only traditional and classical Javanese literature must broaden their interests to include this era.

## Mining (Table 1):

- Mining Products

## Agriculture (Table 2):

- Some Important Agricultural Production

## Industry (Table 3-6):

- Production of Miscellaneous Industry
- Export Volume and Value of Some Products of Miscellaneous Industry
- Production of Basic Metal Manufacture
- Production of Basic Chemical Manufacture

## Investment (Table 7):

- Development of Domestic Investment Projects by Sector.

## Education (Table 8):

- Number of School-age Children and their Participation Rate

(Source: Address of the State by the President of the Republic of Indonesia before the House of People's Representatives on the Eve of the 37th Independence Day, Jakarta, August 16, 1982).

Table 1  
MINING PRODUCTS, 1978/1979 - 1981/1982

No. Commodity	Unit	1978/1979	1979/1980	1980/1981	1981/1982
1. Crude oil	million barrel	589.2	577.2	581.1	570.5
2. Natural gas	mcf.**	868.2	1,028.8	1,046.1*	1,136.2
3. Coal	thousand ton	256.0	267.3	329.3	367.2
4. Tine ore	thousand ton	27.4	30.2	33.6	35.9
5. Nickle ore	thousand ton	1,178.0	1,771.5	1,339.3	1,598.1
6. Bauxite	thousand ton	964.9	1,160.7	1,269.9	1,015.1
7. Iron sand	thousand ton	120.2	78.5	68.3*	105.6
8. Gold	kg	220.3	197.4	224.7*	172.6
9. Silver	kg	2,216.0	1,806.0	2,283.0*	1,940.0
10. Copper concentrate	thousand ton	184.9	188.5	178.7	196.9

\*Revised figures.

\*\*mcf. = million cubic feet.



Table 2

SOME IMPORTANT AGRICULTURAL PRODUCTION, 1978-1981  
(thousand ton)

No.	Kind of Products	1978	1979	1980 <sup>1</sup>	1981 <sup>2</sup>
1.	Rice	17,525	17,872	20,163	22,288
2.	Corn	4,029	3,606	3,991	4,648
3.	Cassave	12,902	13,751	13,726	13,673
4.	Sweet potato	2,083	2,194	2,079	2,034
5.	Soybeen	617	680	653	687
6.	Peanut	446	424	470	505
7.	Sea fishery	1,227	1,318	1,395	1,387
8.	Inland fishery	420	430	455	482
9.	Meat	475	486	571	596
10.	Eggs	151	164	259	275
11.	Milk <sup>3</sup>	62	72	78	86
12.	Rubber	884	898	1,002	1,046
13.	Palm/oil	532	642	701	748
14.	Coconut/copra	1,575	1,582	1,759	1,812
15.	Palm kernel	94	108	126	135
16.	Coffee	223	228	285	295
17.	Tea	91	125	106	109
18.	Clove	21.2 <sup>1</sup>	35.2 <sup>1</sup>	39.2 <sup>1</sup>	40.2
19.	Pepper	46	47	37	39
20.	Tobacco	81	87	116	118
21.	Cane sugar	1,516	1,601	1,831	1,913
22.	Cotton wool	0.5	0.6	6	10
23.	Teak wood <sup>4</sup>	475	575	500	578
24.	Forest wood <sup>4</sup>	30,619	25,852	21,240	15,376
25.	Sawn logs <sup>4</sup>	1,513	3,434	1,784	2,500

<sup>1</sup> Revised figures<sup>2</sup> Provisional figures<sup>3</sup> In million litres<sup>4</sup> In thousand cubic metres

Table 3

## PRODUCTION OF MULTIVARIOUS INDUSTRY, 1978/1979 - 1981/1982

No.	Commodity	Unit	1978/1979	1979/1980	1980/1981	1981/1982
<i>Miscellaneous</i>						
<i>Processed Food</i>						
1.	Coconut oil	ton	319,100	452,030	610,000	480,000
2.	Cooking oil	ton	37,800	266,200	278,900	326,400
3.	Margarine	ton	17,700	18,500	19,300	19,600
4.	Clove cigarettes	million	43,500	41,500	50,500	55,600
5.	White cigarettes	million	25,700	28,600	33,400	28,400
6.	Vetsin	ton	21,600	20,000	26,200	33,500
7.	Sweet condensed milk	thousand crates	4,121	4,816	5,501 <sup>3</sup>	5,184
8.	Powder milk	ton	13,500	16,800	26,501 <sup>3</sup>	28,300
9.	Liquid milk	thousand litres	3,383	5,940	8,500 <sup>3</sup>	9,200
10.	Salt	ton	261,800 <sup>2</sup>	703,000	690,000 <sup>3</sup>	285,800
<i>Garments</i>						
11.	Textile	thousand metres	1,576,000	1,910,000	2,027,300	2,094,000
12.	Weaving yarns	bale	837,300	998,000 <sup>3</sup>	1,184,000 <sup>3</sup>	1,233,024
13.	Tanned hide:					
a.	Cow/buffalo	ton	9,000	10,000	10,200 <sup>3</sup>	10,280
b.	Goat/sheep	sheet	3,333,000	3,660,000	3,730,000	3,766,000
14.	Garments (ready-made)	million dozen	14.4 <sup>1</sup>	16	17.6	19.4
<i>Chemicals and Fiber</i>						
15.	Laundry soap	ton	218,525	202,850	212,992	207,800
16.	Toilet soap	ton	16,104	22,116	28,308	29,819
17.	Detergent	ton	44,245	46,457	54,358 <sup>3</sup>	63,850
18.	Tooth-paste	thousand tubes	108,465	113,900	123,000	137,500
19.	Matches	thousand boxes	539,770	553,000	586,240	664,800
20.	Crumb rubber	ton	861,549	571,586	611,239	337,100
21.	Bicycle tyres	thousand pcs.	7,763	7,375	7,596	7,676
22.	Bicycle tubes	thousand pcs.	7,111	7,289	7,508	7,695
23.	Cardboard boxes	ton	37,800	15,000	55,123	68,906
24.	PVC pipes (and fitting)	ton	10,200	18,078	20,338 <sup>3</sup>	24,054
25.	Paint	ton	33,229	42,720	49,178	50,860
<i>Miscellaneous Metal, Vehicles and Services</i>						
26.	Motor cycles	pc.	330,487	221,572	409,985	503,273
27.	Accumulator	pc.	690,000	1,747,200	3,319,680	3,651,600
28.	Radio	pc.	1,536,000	1,018,800	1,110,492	1,154,900
29.	TV (black & white)	pc.	687,600	574,000	631,400	643,620
30.	Colour TV	pc.	45,600	85,800	98,670	203,311
31.	Freezer	pc.	26,400	47,400	73,470	53,604
32.	Refrigerator	pc.	90,000	99,600	134,460	138,493
33.	Electric bulb	pc.	30,360,000	29,901,600	33,788,808	36,491,900
34.	Sewing machine	pc.	600,000	477,600	525,360	551,628
35.	Dry batteries	pc.	420,000,000	462,000,000	526,740,000	263,570,000
36.	Electric wire	ton	15,720	17,400 <sup>3</sup>	19,140 <sup>3</sup>	18,684
37.	Sprayers	pc.	36,480	78,000	134,160	154,284
38.	Car radio	pc.	— <sup>4</sup>	560,500	616,550	672,039
39.	Electric fan	pc.	—	228,000	490,200	524,300
<i>Miscellaneous Building Material and Others</i>						
40.	Plywood	thousand cubic metres	424,000 <sup>3</sup>	575,000 <sup>3</sup>	1,144,625 <sup>3</sup>	1,609,888
41.	Sawn logs	thousand cubic metres	1,800	5,671	7,362	7,771
42.	Glass and bottle	ton	63,700	68,400	77,300	84,830

<sup>1</sup> Revised units<sup>2</sup> Small holders salt not included<sup>3</sup> Revised figures<sup>4</sup> - = data not available



Table 4

EXPORT VOLUME AND VALUE OF SOME PRODUCTS OF MISCELLANEOUS INDUSTRY  
1979-1981

No.	Commodity	1979		1980		1981	
		Volume (thousand kg)	Value (thousand US\$)	Volume (thousand kg)	Value (thousand US\$)	Volume (thousand kg)	Value (thousand US\$)
<i>Misc. Processed Food</i>							
1.	Frog legs	2,657	7,183.9	1,612	4,754.2	2,776.1	9,430.4
2.	Frozen shrimps	33,739	198,427.6	30,471	177,894.4	23,603.9	156,459.7
3.	Coconut oil cake	316,978	41,284.3	394,328	47,377.1	321,836.5	35,757.3
4.	Coconut powder	1,499	1,684.1	1,013	1,215.0	— <sup>2</sup>	— <sup>2</sup>
5.	Coconut oil	20,708	14,809.8	40,607	22,809.5	3,502.8	1,534.2
6.	Tapioca	709,644	68,888.7	386,053	42,724.6	432,616.9	32,844.8
7.	Cashew nut	87	245.0	367	1,672.9	778.6	1,735.8
8.	Shrimp chip	1,841	2,650.0	2,551	3,921.4	3,187.4	5,605.1
9.	Clove cigarettes	87	859.0	124	1,360.8	203.0	2,416.5
10.	Cocoa	4,987	12,204.9	10,289	19,660.9	9,941.1	17,827.0
<i>Misc. Garments</i>							
1.	Weaving yarn	1,458	3,931.0	992	3,148.1	507.1	1,753.5
2.	Textile	5,231 <sup>1</sup>	32,577.0 <sup>1</sup>	4,118 <sup>1</sup>	27,722.6 <sup>1</sup>	3,446.5	22,938.1
3.	Weaving apparel	3,328 <sup>1</sup>	41,950.5 <sup>1</sup>	7,701 <sup>1</sup>	85,037.0 <sup>1</sup>	11,533.1	90,047.4
4.	Batik	1,517 <sup>1</sup>	28,916.3 <sup>1</sup>	1,670 <sup>1</sup>	15,423.2 <sup>1</sup>	902.1	5,495.1

<sup>1</sup> Revised figures<sup>2</sup> Not exported

Tabel 5

PRODUCTION OF BASIC METAL MANUFACTURE  
1978/1979 - 1981/1982

No.	Commodity	Unit	1978/1979	1979/1980	1980/1981	1981/1982
1.	Steel ingot	ton	80,000	122,400	397,140	436,098
2.	Concrete bar	ton	300,000	500,000	640,500	671,080
3.	Steel wire	ton	100,000	108,000	143,231 <sup>1</sup>	159,673
4.	Zinc sheet	ton	185,000	250,000	294,240	301,596
5.	Steel pipe	ton	118,250	129,457	153,798 <sup>1</sup>	243,032
6.	Aluminium extrusion	ton	2,800	6,086	8,164	10,682
7.	Aluminium sheet	ton	9,700	9,483	11,807	13,721
8.	Diesel engines	pc.	30,400	25,000	34,126	69,446
9.	Manual tractors	pc.	280	550	877	1,074
10.	Mini tractors	pc.	25	150	192	65
11.	Huller	pc.	2,200	2,500	1,868	1,078
12.	Paddy treshers	pc.	600	1,100	243	523
13.	Pulverizer	pc.	120	450	316	431
14.	Concrete mixer	pc.	550	750	837 <sup>1</sup>	715
15.	Stone crusher	pc.	10	10 <sup>1</sup>	3 <sup>1</sup>	8
16.	Estate products/factory components processing machine	ton	3,300	2,960	4,200	4,760
17.	Metal sheet construction/machine assembling	pc.	5,500	6,400	7,000	22,193
18.	Crane	pc.	50	70	50 <sup>1</sup>	40
19.	Four wheeled vehicles:					
	- for trade/business	pc.	80,191	70,431	112,488	130,287
	- for miscellaneous purposes	pc.	9,103	9,691	21,158	24,947
	- for public transportation	pc.	15,373	15,060	21,464	27,156
	- simple motor trade vehicle	pc.	4,000	7,368	14,977	27,506
20.	New steel ship	GRT <sup>2</sup>	11,500	24,010	27,500 <sup>1</sup>	28,873
21.	Steel ship repair	GRT	690,500	549,000	782,000	849,000
22.	Aeroplane	pc.	16	16 <sup>1</sup>	12 <sup>1</sup>	17
23.	Helicopters	pc.	16 <sup>1</sup>	16 <sup>1</sup>	12 <sup>1</sup>	12
24.	Car spare parts					
	- Shock absorber	pc.	207,910	302,014	288,292	1,223,294
	- Radiator	pc.	52,000 <sup>1</sup>	100,000 <sup>1</sup>	160,443 <sup>1</sup>	173,163
	- Exhaust system	pc.	101,739	243,289	286,901	—
	- Oil and air filter	pc.	2,400,000	2,248,581	1,299,000	2,260,000
	- Spark Plug	pc.	2,000,000	2,000,000	10,529,000	11,193,000
25.	Transformer	pc.	1,400	1,375	2,331	3,890
26.	Picture tube (CRT)	pc.	55,000	25,000	59,812	73,181
27.	Central automatic telephone and PABX	pc.	—	130	2,832	37,120
28.	Electric motor	pc.	500	200	563	700
29.	Generator	pc.	—	8,279	8,820	16,875

<sup>1</sup> Revised figures<sup>2</sup> Gross register ton (GRT)



Table 6

## PRODUCTION OF BASIC CHEMICAL MANUFACTURE, 1978/1979 - 1981/1982

No.	Kind of production	Unit	1978/1979	1979/1980	1980/1981	1981/1982
1.	Urea fertilizer	ton	1,437,242	1,827,000	1,985,099	2,006,650
2.	ZA fertilizer	ton	141,000	147,854	180,780	195,197
3.	Pesticide	ton	9,128	20,812	25,671	33,576
4.	Paper	ton	155,203	214,155	232,000	246,587
5.	Motor vehicle tyres	pc.	2,540,401	2,898,398	3,320,000	3,816,871
6.	Motor cycle/scooter tyres	pc.	1,658,157	2,070,480	2,319,700	2,801,262
7.	Explosives	ton	1,550	1,870	718	480
8.	Synthetic resin	ton	14,025	31,027	51,168	57,175
9.	Cement	ton	3,629,003	4,705,109	5,851,759	6,844,241
10.	Water glass	ton	51,428	67,263	106,172	89,919
11.	Soda	ton	8,456	17,572	18,830	15,639
12.	Sulfuric acid	ton	24,522	50,900	39,816	37,238
13.	Aluminium sulfate	ton	18,788	12,900	15,419	17,739
14.	Oxygen	cubic metres	7,182,000	6,177,000	8,070,504	9,471,316
15.	Carbon dioxide	cubic metres	3,485	2,167	4,664	3,944
16.	Acetylene	cubic metres	335,000	246,689	511,552	534,471
17.	Zinc oxide	ton	810	1,127	1,329	731
18.	Chloride acid	ton	5,320	11,000	10,950	9,609
19.	Synthetic fiber	ton	—	72,982	89,068	111,975

Table 7

DEVELOPMENT OF DOMESTIC INVESTMENT PROJECTS BY SECTOR THAT ARE APPROVED BY THE GOVERNMENT  
1968 up to and including March 1979\* and 1979/1980 - 1981/1982  
(investment in million rupiah)

No. Sector	1968 up to March 1979		1979/1980		1980/1981		1981/1982	
	Project	Investment	Project	Investment	Project	Investment	Project	Investment
1. Agriculture	124	258,022	14	76,318	13	18,988	24	99,960
2. Forestry	377	319,706	28	78,232	43	390,077	29	242,102
3. Fishery	26	26,311	3	6,234	3	6,082	3	8,117
4. Mining (metal)	-	-	-	-	1	819	-	-
5. Mining (others)	17	81,748	3	39,760	2	3,601	4	5,854
6. Foodstuff Industry	495	336,534	25	42,718	17	73,350	12	22,492
7. Textile Industry	523	695,935	44	81,949	19	42,780	23	52,880
8. Manufacture of wood	145	132,638	25	75,775	23	105,748	28	167,843
9. Manufacture of paper	160	107,215	20	57,026	3	3,808	9	27,802
10. Manufacture of chemical products	434	392,290	25	146,319	16	265,397	27	188,058
11. Manufacture of non-metallic mineral products	144	299,521	20	115,791	11	107,073	6	359,321
12. Basic metal industry	64	113,326	4	13,925	6	31,441	5	25,693
13. Manufacture of iron and steel	285	197,525	18	34,364	20	40,192	17	56,234
14. Other industries	39	18,178	3	2,128	-	-	1	5,048
15. Electricity	1	1,169	-	-	-	-	1	418,585
16. Construction	7	17,656	-	-	1	2,952	3	11,552
17. Trade	3	928	-	-	-	-	-	-
18. Hotel	104	88,895	6	9,081	9	18,357	9	40,728
19. Transportation	131	162,841	13	20,746	6	33,205	7	11,698
20. Trade services	37	184,964	6	10,000	3	9,600	-	-
21. Sanitary services	1	185	-	-	-	-	-	-
22. Recreational services	17	16,869	1	1,583	-	-	-	-
23. Other services	3	624	-	-	1	735	7	27,847
Total	3,137	3,453,080	258	811,949	197	1,154,205	215	1,771,814

\* Revised data, taking into account the projects that have backed off and have been transferred from PMA (foreign investment) to PMDN (domestic investment).



**NUMBER OF SCHOOL AGE CHILDREN AND THEIR PARTICIPATION RATE,  
1978/79 - 1981/82**

No. Level and Kind of Education	School Age Group	Number of School Age Population (in thousand) <sup>1</sup>			Number of School Age Children <sup>2</sup> (in thousand)			Participation Rate <sup>3</sup> (in percentage)		
		1978/79	1979/80	1980/81	1981/82	1978/79	1979/80	1980/81	1981/82	1981/82
1. <i>Elementary Education</i>										
a. Elementary School	7-12	23,235	23,856	24,497	25,151	18,418	19,985	21,694 <sup>4</sup>	22,981	91.4
b. Madrasah Ibtidaiyah (MI)						16,164	17,836	19,124	20,331	80.8
						2,254	2,149	2,570	2,650	10.6
2. <i>Junior High School</i>										
a. SMP						2,674	2,983	3,413	3,806	34.8
b. Technical and Vocational School	13-15	10,135	10,419	10,704	10,952	2,271	2,895	3,329	3,732	34.1
						403	88	84	74	0.7
3. <i>Senior High School</i>										
a. SMA						1,291	1,574	1,754	2,040	20.4
b. Technical and Vocational School	16-18	8,779	9,166	9,522	9,967	604	843	1,036	1,286	12.9
c. Teacher's Training School and Sports School						474	489	486	520	5.2
						213	242	232	234	2.3
4. <i>Higher Education</i>										
a. Degree Program	19-24	14,767	15,347	15,829	16,196	388.5 <sup>4</sup>	424.7 <sup>4</sup>	492.6	597.2	3.7
b. Non-degree Program						380.0	406.7	460.8	559.4	3.5
						8.5	18.0	31.8	37.8	0.2

<sup>1</sup> At the beginning of the school year (July) and after being adjusted to the Population Census of October 1980.

<sup>2</sup> For Elementary Education only the 7-12 years age group is included (Net number of pupils). For other levels of education the gross total number of pupils is used and includes all pupils/students of the schools concerned.

<sup>3</sup> For elementary Education the net participation rate is used (pupils) = 
$$\frac{\text{Number of pupils at the age of the school concerned}}{\text{Number of population of the age group of the school concerned}}$$

For other levels of education the gross participation rate is used = 
$$\frac{\text{Number of all pupils of the school concerned}}{\text{Number of population at the age group of the school concerned}}$$

<sup>4</sup> Revised figures.

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